

2017 HOUSE APPROPRIATIONS

HB 1005

2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division
Medora Room, State Capitol

HB1005

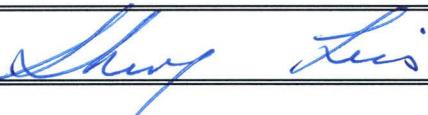
1/9/2017

Recording Job# 26661

Subcommittee

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the state treasurer.

Minutes:

Attachment A

Chairman Boehning: Opened the hearing on HB1005 and HB1065.

Kelly Schmidt, Treasurer, Office of State Treasurer: See attachment A.

Ryan Skor, Director of Finance, Office of State Treasurer: See attachment A.

Representative Kempenich: How do you do you checks and balances against other agencies? Is that on a weekly basis or monthly basis?

Ryan Skor: We do that on a daily basis. Fiscal staff from other agencies are bringing their deposits to us; they'll receipt it, figure out what it goes to on their end and they will accumulate their deposit, create a deposit journal and bring that to us. Our office accumulates it, we verify that their total number matches what that journal voucher is; we accumulate that from every agency that brings it in. We create one large deposit to send to the Bank of North Dakota. We also reconcile everything else that affects cash in the state. We run reports out of PeopleSoft on a daily basis, put it into a spreadsheet and we reconcile daily; we reconcile currently \$2.3 billion on a daily basis.

Ryan Skor continued with his testimony.

Representative Nathe: On the green sheet, in regards to the treasurer's salary, there was a statutory changed increase. Is that also in these wages or is that separate? How did that come about?

Ryan Skor: This is not in this number; this is just our allotment number. The legislative intent that's in there for the salary for the treasurer is in our next section. That came about in the 2013 session. There was legislative intent added to one of the House bills in 2013 to put her salary up to the next lowest paid starting July 1, 2017.

Ryan Skor continued with his testimony.

Representative Kempenich: You should probably give us a breakdown of this.

Ryan Skor: I have put together some things. We'll put that together for you.

Ryan Skor continued with his testimony.

Representative Kempenich: What do the other funds consist of?

Ryan Skor: Referenced page 15 of testimony.

Representative Kempenich: Do you keep track of these through other agencies?

Kelly Schmidt: Not only is the Highway Fund something we're watching; but, with the recent change in the election cycle and the Foundation Aid Stabilization Fund; there's \$600 million in this pool, which if you expend \$300 million, that's going to drop that down. We definitely see a reduction in the Highway Fund. We see a reduction in the Property Tax Relief Fund, should you make a change on that. All of those lines will tighten up.

Kelly Schmidt continued with her testimony.

Chairman Boehning: Is there a reduction in the ITD rates?

Ryan Skor: When the budget guidelines came out from the Governor, ITD produced their estimated rate sheet for the next biennium. There are small decreases; a lot of the cost directly related to manpower costs are going to go up. There is a cost to continue increase in all of those hourly rates that they're charging. The rates that they're charging for storage, disk space, etc. do have some efficiencies and they are reducing those rates; there are some significant decreases in some of the storage rates. In our budget, there is not a lot of storage that we do. The biggest part of our IT budget is the Connect ND rate; that rate is based on the prior biennium's budget appropriation.

Representative Kempenich: Is the Oil and Gas Formula going to change?

Ryan Skor: Last biennium, it was a lot cheaper than the previous biennium. It wasn't such an overwhelming rewrite that we had with HB1358. We've put processes into our software that allows us to make a lot of the changes. If it were to be fully rewritten and a significant change was made to the formula; that's where more significant IT dollars would come in.

Representative Vigesaa: Could you explain the agency funding bar charts?

Ryan Skor discussed the green sheet.

Representative Kempenich: That's been prepaid ?

Ryan Skor: Yes.

Representative Kempenich: But in 2017-2019 we have to do that again. That's not money in the bank.

Ryan Skor: Correct. Currently we have reached the cap in the Oil and Gas Formula for the current biennium; we've gotten over the \$300 million. Depending on what the legislature decides to do with that \$300 million; there's currently \$300 million set aside.

Jeff Simon, Western Dakota Energy Association: Our members include the cities, counties and school districts in the oil, gas and coal producing counties. We want to express our concern about the potential elimination of the appropriation for the coal severance shortfall. It's a significant portion of their budget and would definitely be felt there.

Chairman Boehning: Closed the hearing.

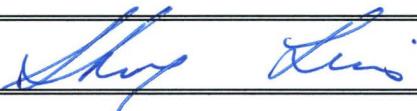
2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division
Medora Room, State Capitol

HB1005
1/18/2017
Recording Job# 27024

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the state treasurer.

Minutes:

See attachments A and B

Chairman Brandenburg: Opened the hearing on HB1005 and HB1065.

Kelly Schmidt, Treasurer, Office of the State Treasurer: See testimony attachment A.

Ryan Skor, Finance Director, Office of the State Treasurer: See testimony attachment B.

Representative Brabandt: Where did the 15 miles come from? Why wasn't it 10 or 20 or 5 miles?

Ryan Skor: I don't know. I do know that back in 1979 was when that 15 mile language was added. I don't know if it was a deal struck or if there is a certain area up there where they knew the impact was going to be.

Representative Kempenich: This was a big fight. People in Oliver county still think they should get it all and it was a compromise. I'm sure that the 15 miles was a compromise also.

Kelly Schmidt: We recall getting calls from people in Oliver county asking how much Morton county was stealing from them. It was quite an event and quite a day.

Kelly Schmidt went through the green sheet.

Representative Vigesaa: I'm just trying to compare the 2013-2015 and our current biennium. There was a pretty substantial increase in travel into this current biennium and that maintains. Can you explain why in 2013-2015 it was \$9,442.00; then it went to \$30,000.00 in this current biennium? That maintains into the next biennium.

Kelly Schmidt: Ryan completed IBARS and I can assure you that there is not excessive travel in my office. That line item is pretty much left whole; because we're paying IT costs out of every line item we can; because we have not had the dollars to pay our regular IT.

Ryan Skor: Looking back at the previous IBARS, I believe they pulled actual expenses of what actually was expended in the 2013-2015 biennium. Going forward, we had estimated \$30,000.00 in travel for 2013-2015; but we only had the \$9,000.00 in travel. We left that estimate at \$30,000.00 knowing that we would want to get out with, at the time, the oil and gas changes and the state aid changes. We put a cushion in there so we would be able to travel. I know we haven't spent anywhere near the \$30,000.00 this biennium. With the allotment we've pulled some back and with the IT costs that we are unable to reduce, we still have to find an allotment for those that we've had to pull back.

Chairman Brandenburg: What you're saying is that you put \$30,000.00 in that line item for travel; but, you're actually using about \$9,000.00?

Kelly Schmidt: One of the things we have done with our agency as we get close to the end of a biennium, is we all know that those IT hourly costs go up. We know through the last several legislative sessions that we've had to make changes to TDOCK and to different distribution formulas that you make changes to and we get one time money to do that. When we get to the end of the biennium, we roll up every dollar that we have in our budget and we try and hedge the increase on those IT costs and try to get as may done as we can before ITD increases their rate. We use those dollars the smartest way we can to get the best bang for our buck.

Ryan Skor: Looking at this biennium to date, our travel was started at \$30,000.00. We've allotted it down to \$18,000.00; of that, through December we've spent \$3,900.00. Sitting in that line item there is technically \$14,000.00 left of appropriation; but, we expect to use that.

Chairman Brandenburg: Historically, you're somewhere around \$9,000.00?

Ryan Skor: Yes.

Kelly Schmidt: A lot of travel we do is all in state relating to the League of Cities, the Association of Counties, going to the annual county meeting. We did a lot of presentations for the League of Cities and townships this last legislative session; because they knew there was going to be a substantial reduction in state aid and highway.

Representative Kempenich: My suggestion is to put the money where it needs to go. If you're going to over estimate, over estimate in IT instead of travel.

Kelly Schmidt: I completely appreciate that. When we went through our budget worksheet and we did IBARS, we wanted to be as completely transparent as we could be. The intention was when we originally planned for our budget, that there would be additional travel. We anticipated that we'd be spending more time with the oil producing counties.

Ryan Skor: As our budget goes into the IBARS system, it's not continually updated with IBARS throughout the year. When we're looking at PeopleSoft are line items are salaries

and wages, and operating expenses. While we may tweak and move things around on our internal budget, those aren't necessarily getting updated on the IBARS side of that budget.

Representative Kempenich: Where did that \$250 million go for the property tax relief?

Ryan Skor: That \$250 million from last biennium was a one time expenditure. So, it's not in either of our budgets this time. It still has to be added to someone's budget. I know the Governor expected it to go into DHS for the county social services takeover. In his part of the budget, I think that's where that money was moved to?

Representative Kempenich: Where is the authority? There's \$300 million being collected.

Ryan Skor: My understanding is that the \$300 million that's sitting in the Tax Relief Fund now, under the Governor's recommendation, was getting transferred to the Budget Stabilization Fund to increase that. The \$275 million for county social services is included as new money in the DHS budget.

Chairman Brandenburg: We only have one \$275 million, there's not two \$300 million. We can do one, but we can't do both.

Becky Keller, Fiscal Analyst, Office of Management and Budget: As Ryan indicated there is a transfer to the Budget Stabilization Fund from the oil money that was going to go to tax relief. There's also a general fund transfer in OMB's bill; then DHS has the special fund authority to spend that money. OMB provided for general fund money to take over the property tax relief; that's already worked into the budget. DHS just has the special fund authority for that part of it.

Chairman Brandenburg: DHS is supposed to come out of SIIF isn't it?

Adam Mathiak, Fiscal Analyst, ND Legislative Council: The \$275 million that DHS has the authority to spend is from the county social services finance fund. It's a transfer of general fund in the OMB, \$275 million, to the county social services finance fund. DHS would spend the \$275 million from there. It's an indirect general fund spending for the property tax relief.

Chairman Brandenburg: So that's coming out of the general fund and the 12% is supposed to be coming out of the bucket for property tax relief.

Adam Mathiak: The governor's recommendation was to replace that 12% credit with this new social services fund.

Chairman Brandenburg: That's why we can't have both.

Adam Mathiak: You're correct. Based on the budgetary needs, or the amounts available, you probably would have to make a decision one way or the other.

Ryan Skor: The \$300 million that the Governor wants to transfer to the Budget Stabilization Fund is in the Tax Relief Fund now that we've collected this biennium. The next \$275 million was out of his increased General Fund bucket out of next biennium's oil and gas collections.

HB1005

January 18, 2017

Page 4

Chairman Brandenburg: Closed the hearing.

2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division
Medora Room, State Capitol

HB1005

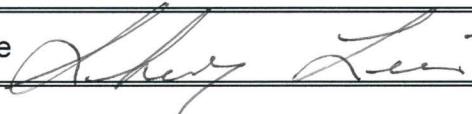
2/7/2017

Recording Job# 28016

Subcommittee

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the state treasurer.

Minutes:

Attachments A and B

Chairman Brandenburg: Opened the hearing on HB1005 and HB1065.

Representative Kempenich: Explained attachments A and B.

Representative Kempenich: Made a motion to move amendment 17.0490.01001.

Vice Chairman Boehning: Seconded the motion.

Voice Vote made.

Motion Carried.

Representative Kempenich: Made a motion for a "Do Pass as Amended".

Representative Vigesaa: Seconded the motion.

Roll Call Vote: 7 Yeas 0 Nays 0 Absent

Motion Carried.

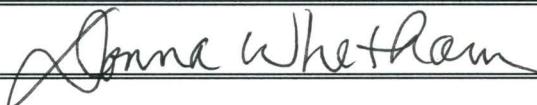
Chairman Brandenburg: Closed the hearing.

2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee
Roughrider Room, State Capitol

HB 1005
2/14/2017
28360

- Subcommittee
 Conference Committee



Explanation or reason for introduction of bill/resolution:

To provide an appropriation for defraying the expenses of the state treasurer; and relating to coal severance tax allocations.

Minutes:

Attachment 1.

Chairman Delzer: We will start with HB 1005.

Representative Kempenich: This is the treasurer's budget, we are going to reduce it a little bit on the operating part of it and on salary and wage we took out one FTE. In section 2 is the health insurance we added \$22,898 into this budget for increased health payment. Section 4 is the tipple payment, Morton county gets half of what Oliver county gets and this was basically a compromise back 30 years ago and then 10 years ago Oliver county wanted to get their portion back and there was compromise. It does put \$180,000 into this budget because the Governor Dalrymple budget zeroed out this amount here. We took a little bit from Morton County and a little bit from Oliver and wound up with \$180,000 and the original was \$206,000 and we took it down about \$26,000. It is \$228,000 in the base budget and we took it down to \$180,000. It is still an increase from the Governor Dalrymple budget but it is a decrease from the base budget. (See Attachment 1).

Chairman Delzer: What happened is the last time they made a change in the severance tax this basically got taken out and Senator Christmann at the time got it back in as cash money and we have been doing it cash since then to cover Oliver County for the whole share that goes to Morton County. My understanding is you took 15% from Morton county and to even it out you had to take 30% from Oliver county. Because they were 100% general funded. It starts moving it down towards the point where you have to take care of that problem at some point. Even if we get to half and half eventually. It does save the state. It costs us \$180,000 to go back in from Governor Dalrymple's budget but it saves the state \$30,000 to \$40,000 from where it was.

Representative Kempenich: That is mostly in the amendment. Go to page 3 and 4 the basic increase in this budget was the \$22,000 for the health insurance and we removed one FTE and removed some of the temporary salary and staff and added back in some information technology costs. In their budget they had a high travel line and they were

shifting travel into IT things and we made it so it works right. We did the IT to reflect what their IT costs were. Basically we took out \$48,000 out of the tipple money. It shows a decrease of the base budget, and it is a little over the Governor Dalrymple budget but not much. 5:47

Chairman Delzer: I thought we passed a bill that dealt with shifting Unclaimed Property from OMB to the Treasurers's Office. But that is not reflected at all in the budget at this time?

Representative Kempenich: No, it hadn't passed yet. It is separated out in the Land Budget too so they bring their own operating and things with it. I thought at that time I should wait to see if it did pass.

Chairman Delzer: Normally if we do budget bills with salary lines in them for elected officials there is language in there for salaries. But because we are not giving any pay raises this time there does not need to be any language in any of our base bills adjustment because they were after the second year already.

Representative Vigesaa: Just a note this was the biennium that the Treasurer was supposed to get a \$5,000 increase in salary and that will not move forward of course.

Representative Schmidt: Could you please go over the \$48,952 and how you determined that and are these all general fund dollars?

Chairman Delzer: The general fund money was being paid to Oliver county all of it. The severance was still being split between the two. This is the compromise to move towards a 50 – 50 in the end. Which you would reduce the amount that goes to Morton County by 15% and 15% goes over to Oliver County. Then we took the \$48,000 away from Oliver County on the general fund side. Which is an equal amount less than what they were getting as to what Morton County gets less.

Representative Schmidt: This was all general fund money?

Chairman Delzer: The general fund was all on the Oliver county side but yes that is all general fund money but it does shift 15 % of it from Morton to Oliver.

Representative Schmidt: So Morton County loses 15% based off the \$30,000.

Representative J. Nelson: Do all counties have to share their severance tax with Morton County?

Chairman Delzer: No.

Representative Kempenich: There's about \$30,000 from Morton county and then \$48,000 that Oliver County would be from the \$228,000 and it's better than zero because that's what the number was to start with.

I make a motion to amend HB1005 with 17.0490.01001.

Representative Brabandt: Seconded.

Chairman Delzer: Any further discussion? Seeing none all those in favor say Aye.
Opposed Nay. All ayes.

Voice vote: all in favor motion carries.

Representative Kempenich: I make motion for a Do Pass as amended on HB 1005.

Representative Delmore: Seconded.

Chairman Delzer: Further discussion by the committee. Seeing none the clerk will call the roll.

A Roll Call vote was taken: Yea: 16 Nay: 1 Absent: 4.

Chairman Delzer: Motion carried for Do Pass as amended on HB 1005.

Representative Kempenich: will carry the bill.

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1005

Page 1, line 1, after "treasurer" insert "; and to amend and reenact subdivision b of subsection 2 of section 57-62-02 of the North Dakota Century Code, relating to coal severance tax allocations"

Page 1, replace lines 10 through 14 with:

"Salaries and wages	\$1,427,333	(\$109,535)	\$1,317,798
Operating expenses	200,614	50,646	251,260
Coal severance payments	<u>228,952</u>	(48,952)	<u>180,000</u>
Total general fund	\$1,856,899	(\$107,841)	\$1,749,058
Full-time equivalent positions	8.00	(1.00)	7.00

SECTION 2. HEALTH INSURANCE INCREASE. The salaries and wages line item in section 1 of this Act includes the sum of \$22,898 from the general fund for increases in employee health insurance premiums from \$1,130 to \$1,249 per month."

Page 1, after line 21, insert:

"SECTION 4. AMENDMENT. Subdivision b of subsection 2 of section 57-62-02 of the North Dakota Century Code is amended and reenacted as follows:

- b. If the tipple of a currently active coal mining operation in a county is within fifteen miles [24.14 kilometers] of another county in which no coal is mined, the revenue from the production not exceeding the production limitation in a calendar year which is apportioned from that coal mining operation according to this subsection must be allocated, subject to the definitions of terms and the requirements in paragraph 4, as provided in this subdivision. For purposes of this subdivision, the production limitation is three million eight hundred thousand tons [3447302.02 metric tons] through calendar year 1995, three million six hundred thousand tons [3265865.07 metric tons] in calendar years 1996 and 1997, and three million four hundred thousand tons [3084428.12 metric tons] in calendar years after 1997 three million four hundred thousand tons [3084428.12 metric tons] through calendar year 2017 and three million tons [2721554.22 metric tons] after calendar year 2017. Revenue from production exceeding the production limitation in a calendar year from that coal mining operation must be allocated only within the coal-producing county under subdivision a. Allocations under this subdivision must be made as follows:
 - (1) Thirty percent must be paid by the state treasurer to the incorporated cities of the coal-producing county and to any city of a non-coal-producing county when any portion of the city lies within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation in the coal-producing county, based upon the population of each incorporated city according to the last official regular or special federal census or

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- the census taken in accordance with the provisions of chapter 40-02 in case of a city incorporated subsequent to such census.
- (2) Forty percent must be divided by the state treasurer between the general fund of the coal-producing county and the general fund of any non-coal-producing county when any portion of the latter county lies within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation in the coal-producing county. The non-coal-producing county portion must be based upon the ratio which the assessed valuation of all quarter sections of land in that county, any portion of which lies within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation, bears to the combined assessed valuations of all land in the coal-producing county and the quarter sections of land in the non-coal-producing county within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation. The county director of tax equalization of the coal-producing county shall certify to the state treasurer the number of quarter sections of land in the non-coal-producing counties which lie at least in part within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation and their assessed valuations.
 - (3) Thirty percent must be apportioned by the state treasurer to school districts within the coal-producing county and to school districts in adjoining non-coal-producing counties when a portion of those school districts' land includes any of the quarter sections of land certified by the director of tax equalization to the state treasurer to be eligible to share county funds as provided for in paragraph 2. The county superintendent of the non-coal-producing counties shall certify to the state treasurer the number of students actually residing on these quarter sections lying outside the coal-producing county and each school district in non-coal-producing counties shall receive a portion of the money under this paragraph based upon the ratio of the number of children residing on quarter sections of that school district within the fifteen-mile [24.14-kilometer] radius of the tipple of a currently active coal mining operation to the total number of schoolchildren from the coal-producing county combined with all the schoolchildren certified to be living on quarter sections within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation in the coal-producing county.
 - (4) For the purposes of this subdivision:
 - (a) The terms "currently active coal mining operation in a county", "currently active coal mining operation in the coal-producing county", and "currently active coal mining operation" mean a coal mining operation that produced more than one hundred fifty thousand tons [136077.71 metric tons] of coal in a coal-producing county during the prior quarterly period.

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- (b) The term "coal-producing county" means a county in which more than one hundred fifty thousand tons [136077.71 metric tons] of coal were mined in the prior quarterly period.
- (c) The term "another county in which no coal is mined" means a county in which not more than seventy-five thousand tons [68038.86 metric tons] of coal were mined in the prior quarterly period.
- (d) The terms "non-coal-producing county" and "non-coal-producing counties" mean any county in which not more than seventy-five thousand tons [68038.86 metric tons] of coal were mined in the prior quarterly period.
- (e) In computing each amount to be paid as provided in paragraph 1, 2, or 3 for coal severance tax revenue from coal mined during a monthly period, the state treasurer shall deduct from the allocation the amount of coal severance tax revenue, if any, that the governmental body in the non-coal-producing county received from the coal mined in the non-coal-producing county during the same monthly period.
- (5) The state treasurer shall allocate funds provided by legislative appropriation to cities, the county general fund, and school districts within a coal-producing county according to the allocation method provided in subdivision a in an amount to offset fifty percent of the loss of that county's share of coal severance tax revenue allocated to a non-coal-producing county under this subdivision in the previous calendar year for the payments through calendar year 2018 and to offset thirty percent of the loss of that county's share of coal severance tax revenue allocated to a non-coal-producing county under this subdivision in the previous calendar year for payments after calendar year 2018. The state treasurer shall make the allocation and distribute the funds, within the limits of legislative appropriations, under this paragraph during the first month of each calendar year. The state treasurer shall include in each biennial budget request the amounts estimated to be necessary for the biennium for purposes of this paragraph, based on the allocations under this subdivision in the most recent calendar years."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1005 - State Treasurer - House Action

	Base Budget	House Changes	House Version
Salaries and wages	\$1,427,333	(\$109,535)	\$1,317,798
Operating expenses	200,614	50,646	251,260
Coal severance payments	228,952	(48,952)	<u>180,000</u>
Total all funds	\$1,856,899	(\$107,841)	\$1,749,058

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Less estimated income	0	0	0
General fund	\$1,856,899	(\$107,841)	\$1,749,058
FTE	8.00	(1.00)	7.00

Department No. 120 - State Treasurer - Detail of House Changes

	Adds Funding for Base Payroll Changes ¹	Adds Funding for Health Insurance Increase ²	Removes 1 FTE Position ³	Reduces Funding for Temporary Staff and an FTE Position ⁴	Adds Funding for Information Technology Costs ⁵	Reduces Funding for Coal Severance Shortfall Payments ⁶
Salaries and wages	\$263	\$22,898				
Operating expenses						
Coal severance payments			(\$88,000)	(\$44,696)	50,646	(48,952)
Total all funds	\$263	\$22,898	(\$88,000)	(\$44,696)	\$50,646	(\$48,952)
Less estimated income	0	0	0	0	0	0
General fund	\$263	\$22,898	(\$88,000)	(\$44,696)	\$50,646	(\$48,952)
FTE	0.00	0.00	(1.00)	0.00	0.00	0.00
	Total House Changes					
Salaries and wages		(\$109,535)				
Operating expenses		50,646				
Coal severance payments		(48,952)				
Total all funds		(\$107,841)				
Less estimated income		0				
General fund		(\$107,841)				
FTE		(1.00)				

¹ Funding is added for cost-to-continue 2015-17 biennium salaries and benefit increases and for other base payroll changes.

² Funding is added for increases in health insurance premiums from \$1,130 to \$1,249 per month.

³ One FTE position is removed, including \$88,000 from the general fund.

⁴ Funding is reduced for temporary staff and for an FTE position that had duties reassigned.

⁵ Funding is added for operating expenses, primarily related to information technology rate increases.

⁶ Funding is reduced for coal severance tax shortfall payments related to changes in the coal severance tax revenue allocation formula.

This amendment also provides the following:

- Adds a new section to identify the funding increase for health insurance premium increases.
- Adds a new section to change the allocation of coal severance tax revenue by reducing the coal production limitation, from 3.4 million tons to 3 million tons, and by reducing the reimbursement percentage for the coal severance shortfall payments, from 50 percent to 30 percent.

Date: 2-7-17
Roll Call Vote #: 1

**2017 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. HB1005**

House Appropriations - Government Operations Division Committee

Subcommittee

Amendment LC# or Description: 12-0490-01001

Recommendation:	<input checked="" type="checkbox"/> Adopt Amendment	<input type="checkbox"/> Do Pass <input type="checkbox"/> Do Not Pass	<input type="checkbox"/> Without Committee Recommendation
	<input type="checkbox"/> As Amended	<input type="checkbox"/> Rerefer to Appropriations	
	<input type="checkbox"/> Place on Consent Calendar		
Other Actions:	<input type="checkbox"/> Reconsider	<input type="checkbox"/>	

Other Actions: Reconsider

Motion Made By Lep Kempernick Seconded By Vice Chairman Bockning

Representatives	Yes	No	Representatives	Yes	No
Chairman Brandenburg			Representative Delmore		
Vice Chairman Boehning					
Representative Brabandt					
Representative Nathe					
Representative Kempenich					
Representative Vigesaa					

Absent

Floor Assignment

If the vote is on an amendment, briefly indicate intent:

Motors, canid

Date: 2/7/2017
Roll Call Vote #: 1

**2017 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. HB1005**

House Appropriations - Government Operations Division **Committee**

Subcommittee

Amendment LC# or Description: 17.0490.01001

Recommendation:	<input type="checkbox"/> Adopt Amendment	<input checked="" type="checkbox"/> Do Pass <input type="checkbox"/> Do Not Pass	<input type="checkbox"/> Without Committee Recommendation
	<input checked="" type="checkbox"/> As Amended	<input type="checkbox"/> Rerefer to Appropriations	
	<input type="checkbox"/> Place on Consent Calendar	<input type="checkbox"/> Reconsider	<input type="checkbox"/>

Other Actions: Reconsider

Motion Made By Representative Kempenich Seconded By Representative Vigesaa

Absent 0

Floor Assignment Representative Kempenich

If the vote is on an amendment, briefly indicate intent:

Date: 2/14/2017
Roll Call Vote #: 1

**2017 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1005**

House Appropriations Committee

Subcommittee

Amendment LC# or Description: 17.0490.01001

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar

Other Actions: Reconsider _____

Motion Made By Representative Kempenich Seconded By Representative Brabandt

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer					
Representative Kempenich			Representative Streyle		
Representative: Boehning			Representative Vigesaa		
Representative: Brabandt					
Representative Brandenburg					
Representative Kading			Representative Boe		
Representative Kreidt			Representative Delmore		
Representative Martinson			Representative Holman		
Representative Meier					
Representative Monson					
Representative Nathe					
Representative J. Nelson					
Representative Pollert					
Representative Sanford					
Representative Schatz					
Representative Schmidt					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:

Motion Carries

Date: 2/14/2017
Roll Call Vote #: 2

**2017 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1005**

House Appropriations Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
Other Actions: Reconsider _____

Motion Made By Representative Kempenich Seconded By Representative Delmore

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer	X				
Representative Kempenich	X		Representative Streyle	A	
Representative: Boehning	X		Representative Vigesaa	X	
Representative: Brabandt	X				
Representative Brandenburg	X				
Representative Kading	X		Representative Boe	X	
Representative Kreidt	A		Representative Delmore	X	
Representative Martinson	X		Representative Holman	X	
Representative Meier	X				
Representative Monson	A				
Representative Nathe	X				
Representative J. Nelson	X				
Representative Pollert	X				
Representative Sanford	A				
Representative Schatz	X				
Representative Schmidt		X			

Total (Yes) 16 No 1

Absent 4

Floor Assignment Representative Kempenich

If the vote is on an amendment, briefly indicate intent:

Motion Carries

REPORT OF STANDING COMMITTEE

HB 1005: Appropriations Committee (Rep. Delzer, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends **DO PASS** (16 YEAS, 1 NAYS, 4 ABSENT AND NOT VOTING). HB 1005 was placed on the Sixth order on the calendar.

Page 1, line 1, after "treasurer" insert "; and to amend and reenact subdivision b of subsection 2 of section 57-62-02 of the North Dakota Century Code, relating to coal severance tax allocations"

Page 1, replace lines 10 through 14 with:

"Salaries and wages	\$1,427,333	(\$109,535)	\$1,317,798
Operating expenses	200,614	50,646	251,260
Coal severance payments	<u>228,952</u>	(48,952)	<u>180,000</u>
Total general fund	\$1,856,899	(\$107,841)	\$1,749,058
Full-time equivalent positions	8.00	(1.00)	7.00

SECTION 2. HEALTH INSURANCE INCREASE. The salaries and wages line item in section 1 of this Act includes the sum of \$22,898 from the general fund for increases in employee health insurance premiums from \$1,130 to \$1,249 per month."

Page 1, after line 21, insert:

"SECTION 4. AMENDMENT. Subdivision b of subsection 2 of section 57-62-02 of the North Dakota Century Code is amended and reenacted as follows:

- b. If the tipple of a currently active coal mining operation in a county is within fifteen miles [24.14 kilometers] of another county in which no coal is mined, the revenue from the production not exceeding the production limitation in a calendar year which is apportioned from that coal mining operation according to this subsection must be allocated, subject to the definitions of terms and the requirements in paragraph 4, as provided in this subdivision. For purposes of this subdivision, the production limitation is three million eight hundred thousand tons [3447302.02 metric tons] through calendar year 1995, three million six hundred thousand tons [3265865.07 metric tons] in calendar years 1996 and 1997, and three million four hundred thousand tons [3084428.12 metric tons] in calendar years after 1997three million four hundred thousand tons [3084428.12 metric tons] through calendar year 2017 and three million tons [2721554.22 metric tons] after calendar year 2017. Revenue from production exceeding the production limitation in a calendar year from that coal mining operation must be allocated only within the coal-producing county under subdivision a. Allocations under this subdivision must be made as follows:
 - (1) Thirty percent must be paid by the state treasurer to the incorporated cities of the coal-producing county and to any city of a non-coal-producing county when any portion of the city lies within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation in the coal-producing county, based upon the population of each incorporated city according to the last official regular or special federal census or the census taken in accordance with the provisions of chapter 40-02 in case of a city incorporated subsequent to such census.
 - (2) Forty percent must be divided by the state treasurer between the general fund of the coal-producing county and the general

fund of any non-coal-producing county when any portion of the latter county lies within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation in the coal-producing county. The non-coal-producing county portion must be based upon the ratio which the assessed valuation of all quarter sections of land in that county, any portion of which lies within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation, bears to the combined assessed valuations of all land in the coal-producing county and the quarter sections of land in the non-coal-producing county within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation. The county director of tax equalization of the coal-producing county shall certify to the state treasurer the number of quarter sections of land in the non-coal-producing counties which lie at least in part within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation and their assessed valuations.

- (3) Thirty percent must be apportioned by the state treasurer to school districts within the coal-producing county and to school districts in adjoining non-coal-producing counties when a portion of those school districts' land includes any of the quarter sections of land certified by the director of tax equalization to the state treasurer to be eligible to share county funds as provided for in paragraph 2. The county superintendent of the non-coal-producing counties shall certify to the state treasurer the number of students actually residing on these quarter sections lying outside the coal-producing county and each school district in non-coal-producing counties shall receive a portion of the money under this paragraph based upon the ratio of the number of children residing on quarter sections of that school district within the fifteen-mile [24.14-kilometer] radius of the tipple of a currently active coal mining operation to the total number of schoolchildren from the coal-producing county combined with all the schoolchildren certified to be living on quarter sections within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation in the coal-producing county.
- (4) For the purposes of this subdivision:
 - (a) The terms "currently active coal mining operation in a county", "currently active coal mining operation in the coal-producing county", and "currently active coal mining operation" mean a coal mining operation that produced more than one hundred fifty thousand tons [136077.71 metric tons] of coal in a coal-producing county during the prior quarterly period.
 - (b) The term "coal-producing county" means a county in which more than one hundred fifty thousand tons [136077.71 metric tons] of coal were mined in the prior quarterly period.
 - (c) The term "another county in which no coal is mined" means a county in which not more than seventy-five thousand tons [68038.86 metric tons] of coal were mined in the prior quarterly period.
 - (d) The terms "non-coal-producing county" and "non-coal-producing counties" mean any county in which

not more than seventy-five thousand tons [68038.86 metric tons] of coal were mined in the prior quarterly period.

- (e) In computing each amount to be paid as provided in paragraph 1, 2, or 3 for coal severance tax revenue from coal mined during a monthly period, the state treasurer shall deduct from the allocation the amount of coal severance tax revenue, if any, that the governmental body in the non-coal-producing county received from the coal mined in the non-coal-producing county during the same monthly period.
- (5) The state treasurer shall allocate funds provided by legislative appropriation to cities, the county general fund, and school districts within a coal-producing county according to the allocation method provided in subdivision a in an amount to offset fifty percent of the loss of that county's share of coal severance tax revenue allocated to a non-coal-producing county under this subdivision in the previous calendar year for the payments through calendar year 2018 and to offset thirty percent of the loss of that county's share of coal severance tax revenue allocated to a non-coal-producing county under this subdivision in the previous calendar year for payments after calendar year 2018. The state treasurer shall make the allocation and distribute the funds, within the limits of legislative appropriations, under this paragraph during the first month of each calendar year. The state treasurer shall include in each biennial budget request the amounts estimated to be necessary for the biennium for purposes of this paragraph, based on the allocations under this subdivision in the most recent calendar years."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1005 - State Treasurer - House Action

	Base Budget	House Changes	House Version
Salaries and wages	\$1,427,333	(\$109,535)	\$1,317,798
Operating expenses	200,614	50,646	251,260
Coal severance payments	228,952	(48,952)	180,000
Total all funds	\$1,856,899	(\$107,841)	\$1,749,058
Less estimated income	0	0	0
General fund	\$1,856,899	(\$107,841)	\$1,749,058
FTE	8.00	(1.00)	7.00

Department No. 120 - State Treasurer - Detail of House Changes

	Adds Funding for Base Payroll Changes ¹	Adds Funding for Health Insurance Increase ²	Removes 1 FTE Position ³	Reduces Funding for Temporary Staff and an FTE Position ⁴	Adds Funding for Information Technology Costs ⁵	Reduces Funding for Coal Severance Shortfall Payments ⁶
Salaries and wages	\$263	\$22,898	(\$88,000)	(\$44,696)		
Operating expenses					50,646	
Coal severance payments						(48,952)
Total all funds	\$263	\$22,898	(\$88,000)	(\$44,696)	\$50,646	(\$48,952)
Less estimated income	0	0	0	0	0	0
	\$263	\$22,898	(\$88,000)	(\$44,696)	\$50,646	(\$48,952)

General fund						
FTE	0.00	0.00	(1.00)	0.00	0.00	0.00
	Total House Changes					
Salaries and wages	(\$109,535)					
Operating expenses	50,646					
Coal severance payments	(48,952)					
Total all funds	(\$107,841)					
Less estimated income	0					
General fund	(\$107,841)					
FTE	(1.00)					

¹ Funding is added for cost-to-continue 2015-17 biennium salaries and benefit increases and for other base payroll changes.

² Funding is added for increases in health insurance premiums from \$1,130 to \$1,249 per month.

³ One FTE position is removed, including \$88,000 from the general fund.

⁴ Funding is reduced for temporary staff and for an FTE position that had duties reassigned.

⁵ Funding is added for operating expenses, primarily related to information technology rate increases.

⁶ Funding is reduced for coal severance tax shortfall payments related to changes in the coal severance tax revenue allocation formula.

This amendment also provides the following:

- Adds a new section to identify the funding increase for health insurance premium increases.
 - Adds a new section to change the allocation of coal severance tax revenue by reducing the coal production limitation, from 3.4 million tons to 3 million tons, and by reducing the reimbursement percentage for the coal severance shortfall payments, from 50 percent to 30 percent.

2017 SENATE APPROPRIATIONS

HB 1005

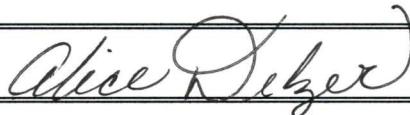
2017 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

HB 1005
3/6/2017
JOB # 28698

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the state Treasurer

Minutes:

- | |
|---|
| 1. Office of State Treasurer Budget Presentation.
2. Coal Severance Shortfall Summary
3. Engrossed HB 1005 (copy) dated January 8, 2013 |
|---|

Chairman Holmberg: called the Committee to order on HB 1005 regarding an appropriation for the Treasurer's Office at 9:00 a.m. regarding HB 1005. Roll call was taken. All committee members were present. Alex Cronquist, Legislative Council and Becky Deichert, OMB were also present.

(0.01.36-0.17.13) **Kelly Schmidt, State Treasurer** testified in favor of HB 1005 and presented written Testimony attached # 1 – Office of State Treasurer Budget Presentation. She stated the mission of the office of State Treasurer found in her testimony on page 1. She commented about the oil and gas revenue that has had a great deal of fluctuation in that fund and they have worked very hard on the details regarding this issue. She expressed the fact that many of the counties and cities are not able to have a full time Auditor but also work in other jobs in the city. They have succeeded in contacting the necessary people to be sure all the records are recorded and correct. To date they have not seen any concerns regarding IT costs in other bills regarding the Treasurer office. She also addressed the Cash Flow. (0.14.40)

Senator Robinson: Asked for what end of the biennium, the current or upcoming.

Ms. Schmidt: The 2017-19, at the end of that biennium. She continued regarding the Property Tax relief, page 9 of testimony. She stated that their office gets a lot of calls regarding the Legacy Fund, the chart on page 10 of testimony regarding deposits in the Legacy Fund.

(0.17.13-0.33.43) **Ryan Skor, Director of Finance, State Treasurer's Office** began his portion of testimony on page 11 of the #1 testimony which includes 2015-2017 Expenditures and Estimated Turn-back, 2017-2019 Budget Changes Compared to 2015-2017, and the proposed budget changes to meet the 90% budget guideline. (0.28.06) Optional Adjustment

Request – which is a request to restore the funding for the Coal Severance Shortfall Distribution. (page 17). See Testimony attached # 2.- Coal Severance Shortfall Summary. Mr. Skor stated the key things to note on the House change # 5, they removed the requirements that the employees would have to pay their 5% health insurance on so they increased that amount to cover the health insurance cost but they also eliminated the statutory language that was in there that was necessary to comply with the legislative intent that we spelled out earlier for the Treasurer's increase, so that language was in HB 1065 but it did not make its way into 1005. And then Finally.....(0.31.37)

Chairman Holmberg: I have a question then on that. I am looking at the Christmas tree bill, the marked up bill which indicates the health insurance increase, Section 2, the salaries include \$22,000 from the general fund, etc., and I don't see any reference here to the eliminating the statutory language. Is that in a different bill then?

Mr. Skor: That language was in 1065. It never was in 1005. It never had to get removed from 1005 on the Christmas tree bill so since it was in 1065, the governor's recommendation, it never got put into 1005 so it never had to be taken out of 1005. (0.32.27)

Chairman Holmberg: So it doesn't exist.

Mr. Skor: Currently it's not because 1065 is dead. He continued with his written testimony regarding the budget for HB 1005, # 6 - that change is what I spelled out for the Coal Severance shortfall and what the House added back into that Coal Severance shortfall and they estimated, or we've estimated, with their changes it will come to \$180,000 this biennium so that's what is in that line item there. The final right side is the current Engrossed HB 1005. See Testimony attached # 3. And then my last page on there is just any Changes that we requested and we touched on it a number of times. HB 1065 included in there was any statutory language necessary for the increase in the Treasurer's salary. This increase was accounted for in our 90% budget requests and sufficient funding for this increase is also currently included in our current salaries and benefits line items but that statutory language is not currently there and so that's what we would need in order to fulfill that legislative intent is to that statutory language. Other than that, I would stand for any questions, especially on the coal or property tax. (0.33.43)

Chairman Holmberg: Are there any questions? Thank-you. Is there any other testimony for the committee on 1005?

Geoff Simon, Executive Director of Western Dakota Energy Association testified in favor of HB 1005. Our Association includes the Coal Conversion counties, the coal producing counties. I just want to indicate my support for the House amendments that provides some reimbursement to Oliver County regarding the Coal Severance Shortfall.

Chairman Holmberg: Make sure you sign the registry. Is there anyone else wishing to testify. If not, we will close the hearing on 1005. The subcommittee for HB 1005 are Senator Dever, Chairman; Senator Bowman and Senator Robinson.

Chairman Holmberg: At the end of this job Chairman Holmberg gave the committee members information regarding the Revenue Forecast Hearing to be held on March 9, 2017 in the Byrnild Haugen Room at 9:30 am. (**0.34.43-0.44.15**)

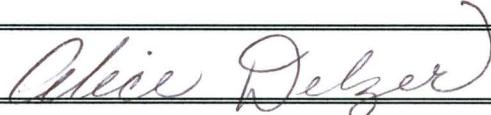
2017 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

HB 1005
4/10/2017
JOB # 30017

- Subcommittee
 Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A DO PASS AS AMENDED for the State Treasurer's Office

Minutes:

No testimony submitted

Chairman Holmberg: called the Committee to order on HB 1005. All committee members were present. Adam Mathiak, Legislative Council Allen H. Knudson, Legislative Council and Lori Laschkewitsch, OMB were also present.

Chairman Holmberg: Regarding HB 1005, we've been holding it down here for a while. It's the Treasurer's budget. I was asked by majority leader if we would pass the bill out. There's still is not 100% clarity as to what the property tax relief item is going to be at the end of the day, but they asked that we pass the bill and send it to Conference Committee and then that will be resolved over the next days. So the bill is before us.

Senator Dever: I am chairman of the subcommittee but we didn't find it necessary to meet because there are no real changes to the bill. The only proposed amendment to the bill was the Treasurer asked us to reconsider the legislative intent that was put in place in 2013 that by this biennium the Treasurer's salary be adjusted from the bottom to equal to second bottom. I told her this isn't the best time for her to be the only state employee to get a pay raise so she is able to let that go. So the only amendment I think is necessary to the bill would be to adjust the health insurance premiums as we have in the other budgets. **(0.01.47)**

Chairman Holmberg: We will need that amendment. We will amend the bill to do the health insurance, which I agree you make.

Senator Dever: moved that amendment. **2nd by Senator Robinson.**

Chairman Holmberg: We can do that on the basis of trust but verify because Adam from Legislative Council is here. Would you call the roll on that amendment to adjust the health insurance?

A Roll Call vote was taken on the proposed Amendment. Yea: 14; Nay: 0; Absent: 0.

Senator Dever: Moved a Do Pass as Amended on HB 1005. 2nd by V. Chairman Bowman.

Chairman Holmberg: Would you call the roll on a Do Pass as Amended on 1005.

A Roll Call vote was taken. Yea: 14; Nay:0; Absent: 0.

Chairman Holmberg: The motion carried. **Senator Dever will carry the bill.** I will carry 1015 when we get done because I have to carry it at the end of the session, so I might as well get some practice. Committee members, we have then 1015, OMB, which always has a lot of Velcro on it and it will be filled I am sure. The other one is 1152 and we were asked to hold it and not do anything with it and at some point the motion will be made to bring it back up to the floor and put it on the calendar. So far it's just the lock-box of this session.

The hearing was closed on HB 1005.

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1005

Page 1, replace line 12 with:

"Salaries and wages" \$1,427,333 (\$111,194) \$1,316,139"

Page 1, replace line 15 with:

"Total general fund" \$1,856,899 (\$109,500) \$1,747,399"

Page 1, line 18, replace "\$22,898" with "\$21,239"

Page 1, line 19, replace "\$1,249" with "\$1,241"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1005 - State Treasurer - Senate Action

	Base Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$1,427,333	\$1,317,798	(\$1,659)	\$1,316,139
Operating expenses	200,614	251,260		251,260
Coal severance payments	228,952	180,000		180,000
Total all funds	\$1,856,899	\$1,749,058	(\$1,659)	\$1,747,399
Less estimated income	0	0	0	0
General fund	\$1,856,899	\$1,749,058	(\$1,659)	\$1,747,399
FTE	8.00	7.00	0.00	7.00

Department No. 120 - State Treasurer - Detail of Senate Changes

	Adjusts Funding for Health Insurance Increases ¹	Total Senate Changes
Salaries and wages	(\$1,659)	(\$1,659)
Operating expenses		
Coal severance payments		
Total all funds	(\$1,659)	(\$1,659)
Less estimated income	0	0
General fund	(\$1,659)	(\$1,659)
FTE	0.00	0.00

¹ Funding for employee health insurance is adjusted to reflect the updated premium amount of \$1,241 per month. Section 2 of the bill is also adjusted to reflect this change.

Date: 4-10-17

Roll Call Vote #: 1

2017 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1005

Senate Appropriations

Committee

Subcommittee

Amendment LC# or Description: amend w/ health insurance

Recommendation: Adopt Amendment

Do Pass Do Not Pass

As Amended

Place on Consent Calendar

Reconsider

Without Committee Recommendation

Rerefer to Appropriations

Other Actions:

draft amendment

Motion Made By Dever Seconded By Robinson

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	/		Senator Mathern	/	
Vice Chair Krebsbach	/		Senator Grabinger	/	
Vice Chair Bowman	/		Senator Robinson	/	
Senator Erbele	/				
Senator Wanzek	/				
Senator Kilzer	/				
Senator Lee	/				
Senator Dever	/				
Senator Sorvaag	/				
Senator Oehlke	/				
Senator Hogue	/				

Total (Yes) 14 No 0

Absent 0

Floor Assignment _____

If the vote is on an amendment, briefly indicate intent:

Date: 4-10-17

Roll Call Vote #: 2

**2017 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1005**

Senate Appropriations Committee

Subcommittee

Amendment LC# or Description:

Recommendation:	<input type="checkbox"/> Adopt Amendment	<input checked="" type="checkbox"/> Do Pass <input type="checkbox"/> Do Not Pass	<input type="checkbox"/> Without Committee Recommendation
	<input checked="" type="checkbox"/> As Amended	<input type="checkbox"/> Rerrefer to Appropriations	
	<input type="checkbox"/> Place on Consent Calendar		
	<input type="checkbox"/> Reconsiderer	<input type="checkbox"/>	

Other Actions: Reconsider

Motion Made By Dever Seconded By Bowman

Total (Yes) 14 No 0

Absent

Floor Assignment Diver

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1005, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1005 was placed on the Sixth order on the calendar.

Page 1, replace line 12 with:

"Salaries and wages \$1,427,333 (\$111,194) \$1,316,139"

Page 1, replace line 15 with:

"Total general fund \$1,856,899 (\$109,500) \$1,747,399"

Page 1, line 18, replace "\$22,898" with "\$21,239"

Page 1, line 19, replace "\$1,249" with "\$1,241"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1005 - State Treasurer - Senate Action

	Base Budget	House Version	Senate Changes	Senate Version
Salaries and wages	\$1,427,333	\$1,317,798	(\$1,659)	\$1,316,139
Operating expenses	200,614	251,260		251,260
Coal severance payments	228,952	180,000		180,000
Total all funds	\$1,856,899	\$1,749,058	(\$1,659)	\$1,747,399
Less estimated income	0	0	0	0
General fund	\$1,856,899	\$1,749,058	(\$1,659)	\$1,747,399
FTE	8.00	7.00	0.00	7.00

Department No. 120 - State Treasurer - Detail of Senate Changes

	Adjusts Funding for Health Insurance Increases ¹	Total Senate Changes
Salaries and wages	(\$1,659)	(\$1,659)
Operating expenses		
Coal severance payments		
Total all funds	(\$1,659)	(\$1,659)
Less estimated income	0	0
General fund	(\$1,659)	(\$1,659)
FTE	0.00	0.00

¹ Funding for employee health insurance is adjusted to reflect the updated premium amount of \$1,241 per month. Section 2 of the bill is also adjusted to reflect this change.

2017 TESTIMONY

HB 1005

Department 120 - State Treasurer
House Bill Nos. 1005 and 1065

Executive Budget Comparison to Prior Biennium Appropriations

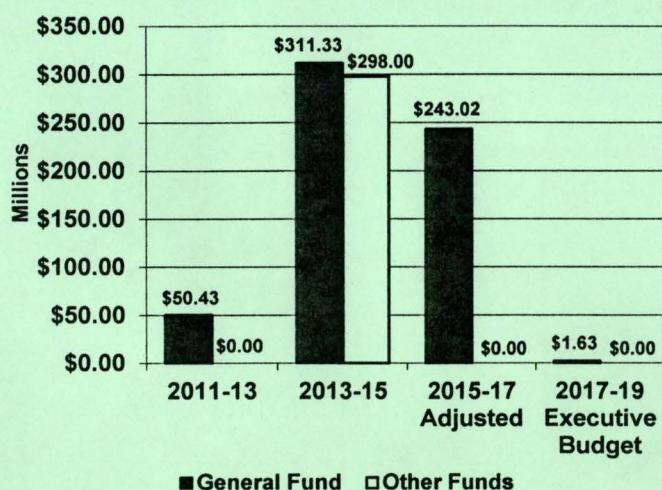
	FTE Positions	General Fund	Other Funds	Total
2017-19 Executive Budget	8.00	\$1,634,231	\$0	\$1,634,231
2015-17 Adjusted Legislative Appropriations ¹	8.00	243,023,598	0	243,023,598
Increase (Decrease)	0.00	(\$241,389,367)	\$0	(\$241,389,367)

¹The 2015-17 biennium agency appropriation amounts reflect general fund budget reductions made in August 2016.

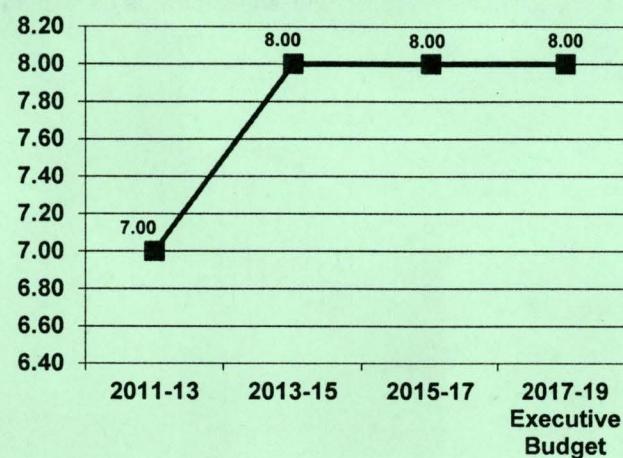
Ongoing and One-Time General Fund Appropriations

	Ongoing General Fund Appropriation	One-Time General Fund Appropriation	Total General Fund Appropriation
2017-19 Executive Budget	\$1,634,231	\$0	\$1,634,231
2015-17 Adjusted Legislative Appropriations	1,856,899	241,166,699	243,023,598
Increase (Decrease)	(\$222,668)	(\$241,166,699)	(\$241,389,367)

Agency Funding



FTE Positions



Executive Budget Comparison to Base Level

	General Fund	Other Funds	Total
2017-19 Executive Budget	\$1,634,231	\$0	\$1,634,231
2017-19 Base Level	1,856,899	0	1,856,899
Increase (Decrease)	(\$222,668)	\$0	(\$222,668)

Attached as an appendix is a detailed comparison of the executive budget to the agency's base level appropriations.

Executive Budget Highlights

- | | General Fund | Other Funds | Total |
|---|--------------|-------------|-------------|
| 1. Provides a salary equity increase for the State Treasurer related to Section 6 of 2013 House Bill No. 1005 | \$14,123 | | \$14,123 |
| 2. Provides funding for state employee salary and benefit increases of which \$7,745 is for salary increases and \$22,898 is for health insurance increases | \$30,643 | | \$30,643 |
| 3. Reduces funding for temporary staff and for an FTE position that had duties reassigned | (\$89,391) | | (\$89,391) |
| 4. Adds funding for operating expenses primarily related to information technology costs | \$50,646 | | \$50,646 |
| 5. Removes funding for coal severance shortfall payments | (\$228,952) | | (\$228,952) |

**Other Sections Recommended to be Added in the Executive Budget
(As Detailed in House Bill No. 1065)**

Salary of State Treasurer - Section 3 provides the statutory changes to increase the State Treasurer's annual salary by \$5,889 in the first year of the 2017-19 biennium related to Section 6 of 2013 House Bill No. 1005 and by 1 percent in the second year as follows:

	Current Level	July 1, 2017	July 1, 2018
State Treasurer's annual salary	\$99,881	\$105,770	\$106,828

Coal severance shortfall payments - Section 4 amends North Dakota Century Code Section 57-62-02 to remove the provision for the State Treasurer to reimburse coal-producing counties for coal severance tax revenue paid to non-coal-producing counties.

Significant Audit Findings

The operational audit for the State Treasurer's office conducted by the State Auditor's office during the 2015-16 interim identified no significant audit findings.

Major Related Legislation

House Bill No. 1075 - Sections 13 and 14 change the allocation of oil and gas tax revenue allocations to reduce the allocations to the North Dakota outdoor heritage fund and the abandoned well fund; to remove the allocations to the oil and gas impact grant fund; and to change the state's share allocations to increase the general fund allocation to \$1 billion, to remove the allocation to the tax relief fund, and to provide up to \$3 million to the lignite research fund.

State Treasurer - Budget No. 120
House Bill Nos. 1005 and 1065
Base Level Funding Changes

Executive Budget Recommendation				
	FTE Position	General Fund	Other Funds	Total
2017-19 Biennium Base Level	8.00	\$1,856,899	\$0	\$1,856,899
2017-19 Ongoing Funding Changes				
Base payroll changes		\$263		\$263
State Treasurer salary equity increase		14,123		14,123
Salary increase - Performance		7,745		7,745
Health insurance increase		22,898		22,898
Reduces funding for temporary staff		(89,391)		(89,391)
Adds funding for information technology costs		50,646		50,646
Adjusts coal severance payments		(228,952)		(228,952)
Total ongoing funding changes	0.00	(\$222,668)	\$0	(\$222,668)
One-time funding items				
No one-time funding items				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	0.00	(\$222,668)	\$0	(\$222,668)
2017-19 Total Funding	8.00	\$1,634,231	\$0	\$1,634,231

Other Sections in State Treasurer - Budget No. 120

Executive Budget Recommendation	
Salary of state treasurer	Section 3 provides the statutory changes to increase the State Treasurer's annual salary by \$5,889 in the first year of the 2017-19 biennium related to Section 6 of 2013 House Bill No. 1005 and by 1 percent in the second year.
Coal severance shortfall payments	Section 4 amends Section 57-62-02 to remove the provision for the State Treasurer to reimburse coal-producing counties for coal severance tax revenue paid to non-coal-producing counties.

Department 120 - State Treasurer

Appropriations Comparisons to the Original and Adjusted Base Budgets

General Fund Appropriations Adjustments (As a result of the August 2016 General Fund Budget Reductions)

	Ongoing	One-Time	Total
2015-17 original general fund appropriations	\$1,983,656	\$258,073,699	\$260,057,355
General fund reductions	(126,757)	(16,907,000)	(17,033,757)
Adjusted 2015-17 appropriations	\$1,856,899	\$241,166,699	\$243,023,598
Executive Budget changes	(222,668)	(241,166,699)	(241,389,367)
2017-19 Executive Budget	\$1,634,231	\$0	\$1,634,231

Summary of August 2016 General Fund Budget Reductions

	Ongoing	One-Time	Total
Vacant positions and reallocation of duties	(\$74,309)		(\$74,309)
Operating expense reductions related to travel, office equipment, and professional development	(36,400)	(\$8,000)	(44,400)
Coal severance shortfall payments	(16,048)		(16,048)
Property tax relief credit program		(16,575,000)	(16,575,000)
Township road funding distributions		(324,000)	(324,000)
Total reductions	(\$126,757)	(\$16,907,000)	(\$17,033,757)
Percentage reduction to ongoing and one-time general fund appropriations	6.39%	6.55%	6.55%

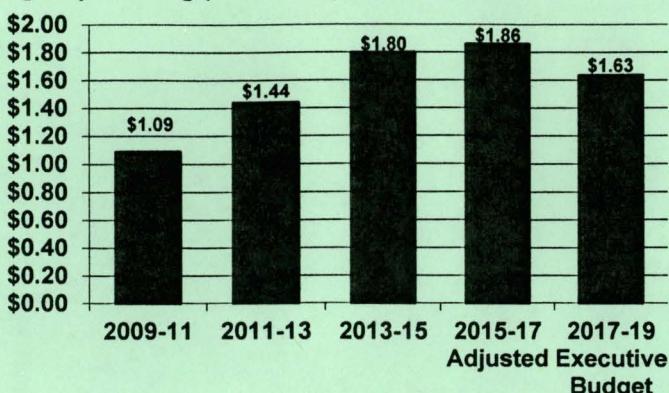
2017-19 Executive Budget Changes to the Original and Adjusted Base Budgets

	Changes to Original Budget	Budget Reduction Adjustments	Changes to Adjusted Budget
Base payroll changes	\$263		\$14,386
Adds funding for State Treasurer salary equity increase	14,123		14,123
Adds funding for state employee salary and benefit increases	30,643		30,643
Adjusts funding for vacant FTE positions and FTE position duty reallocation	(163,700)	\$74,309	(89,391)
Adds funding for operating expenses primarily related to information technology costs	14,246	36,400	50,646
Adjusts funding for coal severance payments	(245,000)	16,048	(228,952)
Total	(\$349,425)	\$126,757	(\$222,668)

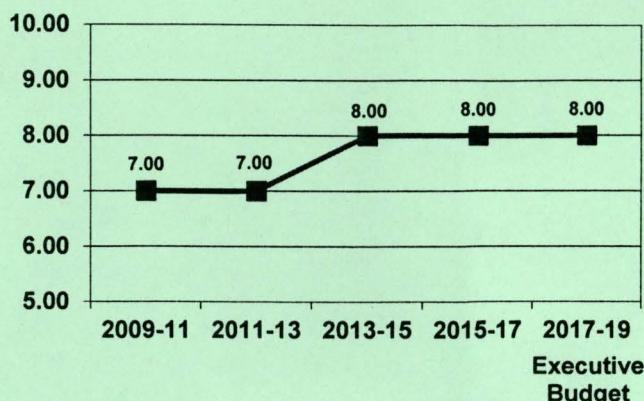
Department 120 - State Treasurer

Historical Appropriations Information**Ongoing General Fund Appropriations Since 2009-11**

Agency Funding (in Millions)



FTE Positions

**Ongoing General Fund Appropriations**

	2009-11	2011-13	2013-15	2015-17 Adjusted	2017-19 Executive Budget
Ongoing general fund appropriations	\$1,087,985 ¹	\$1,438,802	\$1,797,631	\$1,856,899	\$1,634,231
Increase (decrease) from previous biennium	N/A	\$350,817	\$358,829	\$59,268	(\$222,668)
Percentage increase (decrease) from previous biennium	N/A	32.24%	24.94%	3.30%	(11.99%)
Cumulative percentage increase (decrease) from 2009-11 biennium	N/A	32.24%	65.23%	70.67%	50.21%

¹This amount excludes \$1,151,000 for payments to counties in lieu of property taxes on carbon dioxide pipeline property. The 2011 Legislative Assembly removed the payments.

Major Increases (Decreases) in Ongoing General Fund Appropriations**2011-13 Biennium**

1. Added funding to reimburse coal-producing counties for coal severance tax revenue paid to non-coal-producing counties pursuant to Section 57-62-02 \$252,800
2. Added funding for position reclassifications for two accounting positions \$24,000

2013-15 Biennium

1. Added funding for 1 accounting manager FTE position \$195,223
2. Added funding for temporary salaries \$60,000

2015-17 Biennium

1. Added funding for information technology costs, including desktop support services \$101,658
2. Reduced funding for salaries and wages related to the August 2016 budget reductions (\$74,309)

2017-19 Biennium (Executive Budget Recommendation)

1. Reduces funding for temporary positions and an FTE position that had duties reassigned (\$89,391)
2. Adds funding for operating expenses primarily related to information technology costs \$50,646
3. Removes funding for coal severance shortfall payments (\$228,952)

January 9, 2017

HB1005 / HB1065

attachment A

2017-2019

Office of State Treasurer

Budget Presentation

Kelly Schmidt, Treasurer
Ryan Skor, Director of Finance



Presented to:

Government Operations

Representative Mike Brandenburg, Chairman

Representative Randy Boehning, Vice-Chair

January 9, 2017

Chairman Brandenberg, and members of the committee, I am Kelly Schmidt, State Treasurer.

Today's presentation will be an overview of the Office of the Treasurer and a detailed budget presentation. I will provide the overview, and Ryan Skor, Director of Finance, will present the budget. Feel free to ask questions at any point throughout the presentation.

Mr. Chairman, members of the committee, Ryan will address the seven items presented by Appropriations Chairman Delzer, in the letter we received from Legislative Council in the financial portion of this presentation.

OVERVIEW

Like all of you, I too have been elected to serve the great people of North Dakota. It's with honor and humility, that I have been blessed to serve as the state's treasurer for another four year term. As I start my 13th year as Treasurer, it's important to be reminded where the office started in 2005 and where we are today. For some of you, this may be your first introduction to the Office of the Treasurer.

The mission of the Office of The Treasurer, is to fulfill our constitutional and statutory responsibilities, to assure sound financial oversight and transparency to all public funds, and to promote prudent practices in government. Our agency performs these responsibilities with tremendous pride and accuracy. It matters not, the amount of zeros when balancing the general fund, because it's the nickels that we try to find when reconciling accounts each and every day. It's the accuracy we strive for.

Many of you may think the Office of the Treasurer is a duplication of services or functions you may find inside of other agencies. This is not factual. While we work directly with OMB on numerous issues, there is no duplication of duties. OMB maintains PeopleSoft (the state

accounting system). We as an agency use PeopleSoft to process our daily deposits and run reports used in our daily reconciliation process. OMB assists us when any PeopleSoft issues arise. We are the checks and balances between OMB and the Bank of North Dakota. While it is the role of the Bank of North Dakota to invest money to profit the Bank, it is the fiduciary responsibility of the Treasurer's office to manage and grow assets for the general fund. Our work with the Tax Department consists of them certifying tax collections and other amounts to our office. We then calculate the appropriate distributions based on these certifications and statute.

One role of our agency is to manage the "checkbook" for the State of North Dakota. The complexity of what we do is often misunderstood. To make it simple, our agency receives daily check deposits from most state agencies, verifies the amounts, and posts the related journal entry. The same is true for ACH transactions. By 11 am each day, we reconcile these amounts and update the appropriate funds. When I say we strive for accuracy, we mean it. The volume of checks across all state agencies amounts to often times, thousands of checks each day. This about it this way, in your business or even in your household, imagine reconciling hundreds of accounts each and every day, looking for nickels when there is an error. I am very pleased to say, the proficiency of our team is outstanding. We manage over a dozen bank and investment accounts for the State as well as 25 agricultural commodity groups and the Veterans Post War Trust. To date, these accounts total nearly \$2.5 billion. As a reminder, the Treasurer has the sole fiduciary responsibility for oversight of the Veterans Post War Trust Fund as stated in the Constitution.

The Office of State Treasurer is responsible for disbursing over 30 tax distributions to political subdivisions. Our web based system TDOC, Tax Distribution Outstanding Check, pulls data from a variety of sources, which streamlines our distributions and ensures greater accuracy, transparency and efficiency. Funds distributed include but are not limited to State Aid, Oil and Gas and the Highway Tax. Tax collections from political subdivisions we collect, include the Indigent Defense Administrative Fund, the Domestic Violence Prevention Fund, and district court costs.

Our office expends a significant amount of resources to provide analysis, data, and education of various tax distributions and state laws to legislators, employees of other state agencies, officials and employees of local political subdivisions, and the general public.

When I speak of complexity, let me detail the efficiency required by our agency to simply manage the fluctuation of the oil and gas revenue as it relates to distributions to hub cities, political subdivisions, and schools. Also, the analysis and communication to cities as they prepared their FY 2017 budget with a significant reduction in State Aid and the Highway tax. From 2005 - 2017, more than a dozen new funds have been created by legislative directive that require IT demands and fiscal oversight.

To name a few....

- Centers of Excellence and Research Fund (2005)
- Energy Conservation Fund (2013)
- Legacy Fund (2010)
- Outdoor Heritage Fund
- Research ND Fund (2013)
- Strategic Investment & Improvement Fund (2011)
- Tobacco Prevention and Control Trust Fund (2008)
- Tobacco Settlement Trust Fund
- Workforce Enhancement Fund

There are four key management functions within the Office of the Treasurer:

1. Cash management – we collect all the deposits and payables from the agencies. It's our expertise that manages the daily cash flow within the state fund. The forecasting and cash management by our Agency is necessary to ensure the availability of sufficient funds to cover the obligations/payables while ALWAYS optimizing investment opportunities. The millions and billions invested in the immediate short term, is where we work diligently, making wise investment decisions ensuring the State is always "making money." Our agency reconciles accounts daily to three primary areas: The Bank of North Dakota to the State's software, PeopleSoft, and our state agency deposits and Certificate of Deposit (CD) interest income.
2. Accounting – The Office of State Treasurer is responsible for paying all warrants (payables) or checks drawn against the state. Bank balances are reconciled daily to ensure sufficient funds are available to pay all outstanding warrants/payables. We also process void check requests and stop payments as needed. All state funds/deposits received by agencies are deposited through the Office of the Treasurer for investment into the general fund.
3. Investments – our agency serves as the custodian for all state funds, and we are responsible for the investment of the state's general and special funds, including the state Ag Commodity groups and the Veterans Postwar Trust.
4. Tax Collection and Distribution– the Office of the Treasurer is responsible for the collection of various revenues from political subdivisions. These include all of the miscellaneous court costs collected by the counties. We collect these revenues from



each county and ensure they are all deposited into the appropriate state fund as defined in statute. We also are responsible for the administration of over 30 separate revenue distributions to local political subdivisions across the state. The complexity of some of these distribution formulas has amplified over the past 12 years and, specifically, the oil and gas distribution has been changing each biennium. Let me take you back to January of 2015, the first few days of the 64th legislative session and the “Surge Bill” was passed. As with all distributions our process requires bank certification from our political subdivision, we needed to certify the proper bank account to use for each of the political subdivisions receiving funds. Little did we know, that some of the municipalities receiving funds were so small we could not find a treasurer or auditor to authorize the payment. After checking with the League of Cities and Association of Counties, our staff contacted people who know people through social media, friends, and colleagues and we were able to track down the proper official for each of the locals receiving money. As most of you know, some rural cities are so small the auditor or treasurer may only work one day a week.

In addition to the requirements of my office, I am required by law to serve on the following boards.

1. State Investment Board – The SIB has statutory responsibility for the administration of the investment programs of several funds including the Public Employees Retirement System (PERS), The Teachers' Fund for Retirement (TFFR) and the Workforce Safety& Insurance Fund. The SIB also

maintains contractual relationships for investment management with certain political subdivisions. One of three elected officials serving on this board.

2. Teachers Fund for Retirement (TFFR) - Responsibility for administration of the TFFR benefits program. One of two elected officials serving on this board.
3. Board of University and School Lands- responsible for the investment of the Common Schools Trust Fund, Unclaimed Property, management of school trust lands and the distribution of energy impact funds. Comprised of five elected officials.
4. Board of Tax Equalization. One of five elected officials serving on this board.
5. State Historical Board. One of two elected officials serving on this board.
6. State Canvassing Board. One of two elected officials serving on this board.

Agency Accomplishments:

- Staff – the Office of the Treasurer has evolved from a staff of bookkeepers to a team of five college educated accountants and our Finance Director, Ryan Skor is a CPA and holds a master's degree. Our staff is cross-trained in every capacity. If one person is out on leave or sick, a team member has the skill set and knowledge to fulfill that role with ease.
- The volume of work in our agency has grown exponentially, and we have remained consistent in our staff. In 2005, we had a staff of seven which included me. Today we have a staff of 7.5, which includes me. In April of 2016, we defunded the deputy position, and created a permanent part-time administrative position.

- Financial Literacy –As stated in statute, we provide a community outreach and education program to our middle schools and high schools. This is funded entirely by partnerships with the business community as we continue to educate North Dakota's youth on the importance of money management.
- Technology – The Office of State Treasurer has embraced technology with gusto. We launched our newly designed interactive website three years ago and completed a home page redesign in 2016. Our external stakeholders, city and county auditors/treasurers have access to all forms and pending distributions on-line, allowing them to accurately plan and budget.
- Monthly Revenue Report – This is the newest addition to the TDOC system. It has been successfully launched and is working with ease. Municipal courts throughout the state must now upload all reports and TDOC then creates their appropriate journal entry to record each deposit. Keep in mind there are 53 counties and each court has three entries tied to their deposit. We have spent hundreds of hours on training, which in return has saved us hundreds of hours in journal entries, reconciling and mail costs now and in the future.
- Website, external stakeholders – nd.gov/treasurer averages approximately 800 active users per month, with nearly 70% of the users being repeat viewers. Our users are the cities and counties and many legislators looking at the Operating Fund Balance, Legacy Fund or other government funds. We continue with our Focus on Transparency – it's the people's money.

BUDGET DISCUSSION

Ryan Skor, Director of Finance

As part of the budget discussion for the Office of State Treasurer, I'll work my way through the requested items as outlined in our request from Legislative Council. I'll then finish up by explaining a couple of potential challenges our office may face moving forward.

FINANCIAL AUDIT FINDINGS

Our most recently completed audit was for the 2013-2015 biennium and was presented to the interim Legislative Audit and Fiscal Review Committee at their meeting in April of 2016. There were no formal findings reported in that audit report.

BASE LEVEL COMPONENTS

Our office consists of seven full time and one part-time employee, this includes the Treasurer. Our fiscal staff is made up of two ABS I's, an ABS II, an ASO III, and myself as an Accounting Manager. As mentioned in the Treasurer's remarks, and as a testament to the complexity of the work we perform, all of these fiscal positions require a four-year college degree and varying levels of work experience to be qualified. With the duties required of our office, this level of staffing is vitally important not only to be able to actually perform the required duties, but also to provide the essential checks and balances so that one person isn't handling all stages of a process. This is true not only with daily depositing to and reconciling of the state's checkbook, but also with our revenue distribution processes for all of the funds we send out to the political subdivisions.

In regards to our on-going operating expenses, the vast majority are for data processing services provided by ITD. These are fixed costs that do not render themselves to being reduced by anything other than a reduction in fees charged by ITD. In the current biennium 70% of our on-going operating expenses consist of data processing and desktop support service charges from ITD. Our office has fully embraced technology and has continued to advance the automation of a number of our processes. This embracing of technology has created significant efficiencies within our office. These efficiencies have allowed us to continue performing our statutory and constitutional duties at a very high level without the need for drastically increased staff, even during this time of unprecedeted growth in the volume of activity processed by our office.

MAJOR ONGOING INCREASES OR DECREASES BY RECENT LEGISLATIVE ACTION

The 2015 Legislative Assembly approved additional operating expense appropriations to cover information technology cost increases. These increases included a \$42,000 ConnectND rate adjustment and \$26,000 increase for the addition of desktop support services as mandated in House Bill 1021. It also added funding for temporary contract employees.

The August 2016 Special Session approved the allotment reductions that I have spelled out in the next section.

EFFECTS OF ALLOTMENTS ON OUR 2015-2017 BUDGET

Line Item Description	2015-2017 Original Appropriation	6.55% Total Allotment		2015-2017 Net Appropriation
Salaries and Wages	\$ 1,501,642.00	(74,309.38)	1	1,427,332.62
Operating Expenses	\$ 237,014.00	(36,400.00)	2	200,614.00
Coal Sev. Shortfall	\$ 245,000.00	(16,047.50)	3	228,952.50
One-Time Funding:				
IT Development Costs	\$ 73,699.00	(8,000.00)	4	65,699.00
Township Road Dist.	\$ 8,000,000.00	(324,000.00)	5	7,676,000.00
Property Tax Relief	\$ 250,000,000.00	(16,575,000.00)	6	233,425,000.00
Total for Department	\$ 260,057,355.00	(17,033,756.88)		243,023,598.12

NOTES:

1. The decision was made to reallocate the duties of the deputy treasurer position to other staff within the office and convert a temporary position into that FTE which resulted in current and on-going General Fund savings. These savings were combined with savings realized from temporary vacancies make up the total allotment amount shown.
2. Miscellaneous operating expense reductions. Specifically reduced travel, office equipment, and dues & professional development expenditures.
3. The General Fund appropriation for Coal Severance Shortfall (NDCC 57-62-02(5)) was allotted by the required 6.55%. The remaining appropriation is insufficient to make second year distribution as spelled out in statute.
4. One-time IT development cost savings recognized through efficiencies in implementing new IT projects.
5. Township distribution spelled out in HB 1012 Section 8 called for \$5,000 per non-oil township. Distribution was completed after first 4.05% allotment which only reduced the per township amount from \$5,000 to \$4,990.89.
6. Allotment of the General Fund appropriation for the 12% State-paid Property Tax Credit. Will potentially need a deficiency appropriation to hold counties harmless.

PROPOSED BUDGET CHANGES TO MEET THE 90% BUDGET GUIDELINE

To achieve the 90% General Fund Budget Request Limit set for the 2017-19 biennium, we

looked deep into our processes to find any additional inefficiencies which could be reduced.

Over the past number of biennia, the Treasurer has continually sought and found efficiencies to

keep our operating budget as lean as possible. The only significant funding additions have come in the form of one-time IT. These funds have been used to update our Tax Distribution Outstanding Check (TDOC) system to create efficiencies or provide for the necessary programming changes needed for our distributions due to legislative changes.

As mentioned previously, the vast majority of our on-going operating expenses are for data processing and desktop support services provided by ITD. These are fixed costs that were not able to be reduced by the requested 10%. In fact, over the past two biennia, these on-going costs have been underestimated and underfunded. The expenses have been backfilled with one-time IT dollars that were only available due to efficiently completing one-time projects on time and under budget. Therefore, the base level (not including a 10% reduction) of funding for IT costs within the OST budget is insufficient to cover the actual IT costs incurred. After reviewing ITD's estimated rates for the 2017-19 biennium, it has been determined we will need an additional \$23,000 to cover data processing. This is needed to ensure our everyday, ongoing IT costs are fully funded for the 2017-19 biennium.

In looking closely at our remaining operating expenses we have identified small savings in our office equipment/furniture and telephone line items to provide a partial offset to these increases. These savings are included in our base budget request, however, they are not nearly enough to make up for the increase in ongoing IT costs and the additional 10% reduction requested. Our office then turned to the salaries and benefits line to determine if there were other opportunities which would significantly reduce ongoing salary and benefit costs.

After review of our strategic plan, and the statutory and constitutional responsibilities of the agency, we began to look at workflow. We felt we can reduce salary costs and still provide the same high level of service to all state agencies, political subdivisions and the general populace. This reduction removed \$60,000 in temporary salary dollars and eliminated the temporary part-time position within our office. It also reduced funding for the Deputy Treasurer position, whose duties were transferred to other staff within the office. We have also included a legislative intent increase to the salary of the State Treasurer. Section 6 of House Bill 1005 of the 2013 Legislative Session laid out legislative intent that called for an increase in the State Treasurer's salary to match the salary of the next lowest-paid elected official as of July 1, 2017. Combined, these changes reduce the salaries and benefits line by nearly \$166,000.

Furthermore, in addition to our salaries, benefits, and normal operating expenses, the OST's general fund appropriation includes the Coal Severance Shortfall, which are payments made to coal producing counties. This is estimated each biennium and included in our agency budget, paid out annually. The 2015-17 amount was set at \$245,000. To meet the 90% general fund budget request and to account for part of our required increase in IT costs, we had to reduce this amount. As we've seen during this biennium, any reduction in this amount will, most likely, cause the appropriation to be insufficient to make the full payments as spelled out in NDCC 57-62-02(5). A request to restore this funding was included as an optional spending package that was not approved in the Governor's budget. Additionally, the Governor's executive recommendation called for the repeal of NDCC 57-62-02(5) which would remove this Coal

Severance Shortfall payment from statute and remove the related appropriation amount from our budget.

BUDGET CHANGES RECOMMENDED BY THE GOVERNOR

Line Item Description	2017-2019 Base Budget	Governor's Recommended Changes		2017-2019 Governor's Recommended
Salaries and Wages	\$ 1,427,332.62	(44,362.00)	1	1,382,970.62
Operating Expenses	\$ 200,614.00	50,646.00	2	251,260.00
Coal Sev. Shortfall	\$ 228,952.50	(228,952.50)	3	-
One-Time Funding:				
IT Development Costs	\$ -	-		-
Township Road Dist.	\$ -	-		-
Property Tax Relief	\$ -	-		-
Total for Department	\$ 1,856,899.12	(222,668.50)		1,634,230.62

NOTES:

1. Reallocation of the deputy treasurer position's duties and conversion of a temporary position to that FTE resulting in ongoing General Fund savings. These savings are combined with the cost-to-continue increases included in the Governor's recommendations resulting in this net decrease in salaries and wages.
2. Increase in ITD costs (both data processing and desktop support). Over the past two biennia, our on-going IT costs have been underestimated and underfunded. These costs have been backfilled with available one-time IT dollars only available due to efficiently completing one-time projects on time and under budget. Therefore, the base level (not including a 10% reduction) of funding for IT costs within the OST budget is insufficient to cover the actual IT costs incurred. As an offset to these needed funding increases, we have included savings in our office equipment/furniture and telephone line items.
3. Governor's recommendation calls for a repeal of NDCC 57-62-02(5) that would eliminate the necessity of this line item in our budget.

FEDERAL FUNDING CHANGES

The Office of State Treasurer does not receive any federal funding as part of its operating budget so there would be no anticipated changes.

AGENCY CHALLENGES

Treasurer Schmidt

IT Costs:

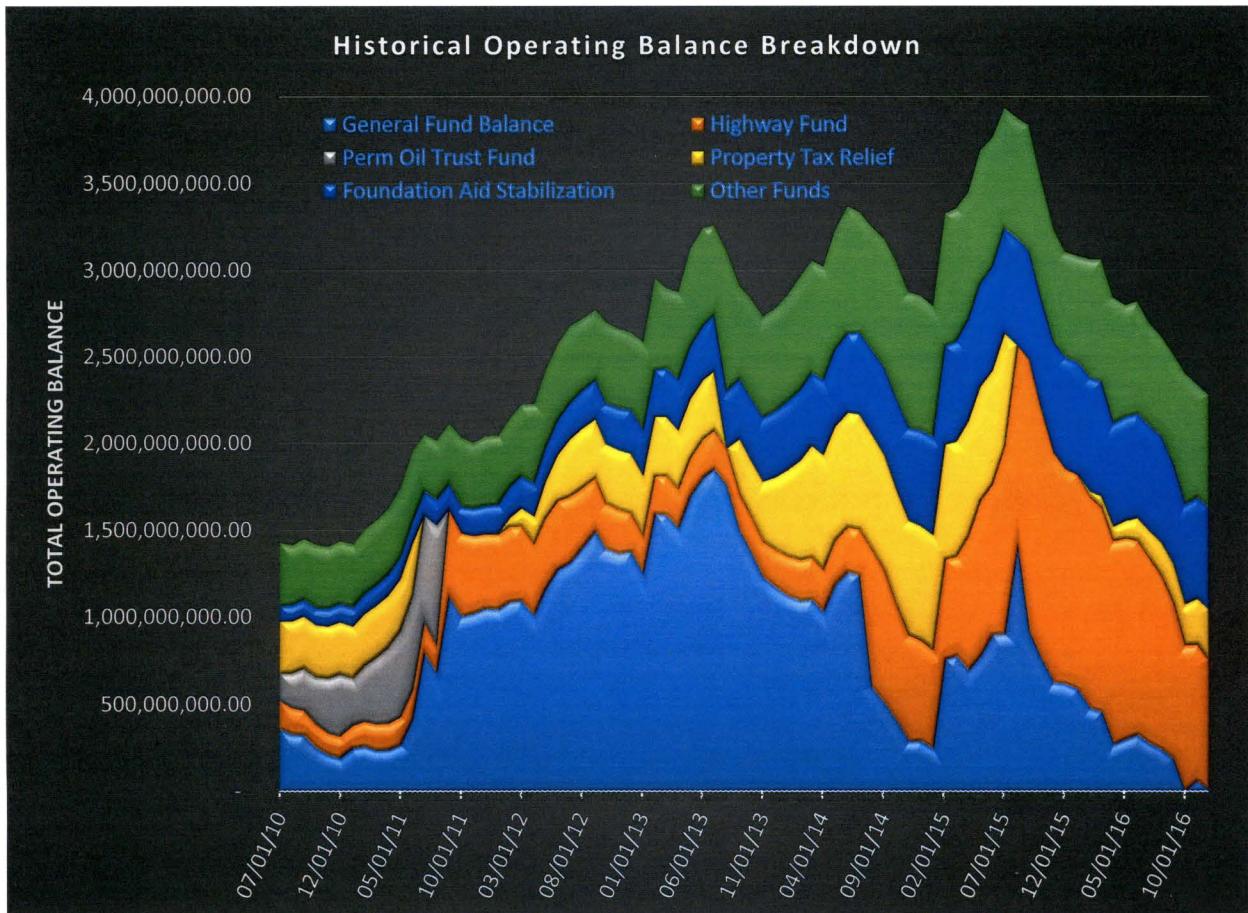
The first major concern our office faces in regards to its budget is in relation to our day-to-day IT costs. Of our \$251,000 of requested on-going operating expenses, almost \$167,000 is directly related to data processing, communications, and desktop support services provided by ITD. We receive excellent service from ITD, we just want to make you aware that these costs are not able to be reduced without a reduction in fees from ITD.

- As we are in the midst of the session, we are “birddogging” bills that will affect our agency and analyzing potential IT costs that may be associated with implementing a new formula or distribution. We must keep a watchful eye, so we are not absorbing hard IT costs in our existing budget projections.

Cash Flow:

The second item is not a concern related to our budget, but more so something we just want to bring to the attention of this committee. As mentioned previously, our office is tasked with the cash flow management of the state’s checkbook. With the exponential growth in revenues seen over the past decade, cash flow has not been a major issue. It is also currently not a huge issue. Going forward, there are a couple things we’d like to point out that may cause cash flow to become a concern.

Below is a chart showing the recent historical breakdown of what our operating balance (checkbook) consists of.



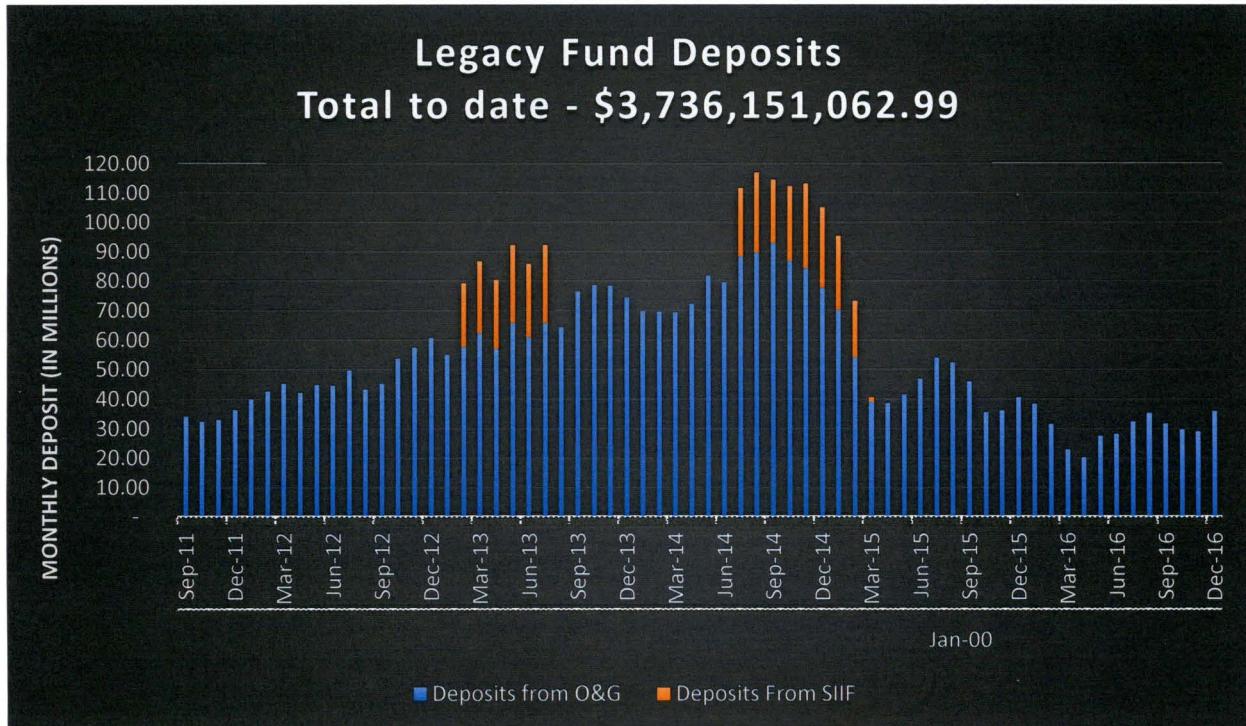
As you can see, historically speaking, we're still in a very good position, cash-wise. Our concern lies in whether or not the downward trend continues and what the makeup of the balance looks like through the downturn. In looking at this chart you'll note that, until recently, the general fund balance has been a significant percentage of our operating balance. As that balance has been decreasing, we've been relying more and more on some of the other funds as a sort of buffer for cash flow purposes. Currently, the major part of our operating balance is made up of the highway fund, the foundation aid stabilization fund, and the tax relief fund.

As I mentioned, with the significant balances that are currently in these funds, there isn't any immediate cash flow issues. However, if the balance of the highway fund continues to decrease and depending on what is done with the tax relief fund and the excess funds in the foundation aid stabilization fund, we may begin to see some issues.

Another item to note that would compound this issue is in regards to the timing of the transfer of earnings from the Legacy Fund. In the ND Constitution, it requires that the earnings for each biennium after June 30, 2017 be transferred to the general fund at the end of the biennium. If these earnings are appropriated during this legislative session, this would create additional cash flow constraints as this money would not be available until after the biennium has closed.

Legacy Fund:

A final chart that I wanted to show is of no significance to our budget, per se. Just something that we know has generated a lot of attention and questions. This chart just shows the complete history of the Legacy Fund deposits that our office has made since inception of the fund.



Mr. Chairman, members of the committee that concludes our presentation. I stand for any questions.

January 18, 2017

Office of State Treasurer

HB1005 & HB1065

Estimated Turnback Allocation ('15-'17 Biennium)

attachment A

Prepared by House Appropriations
(Governor's Operations Division)

Line Item Description	2015-2017 Original Appropriation	6.55% Total Allotment	2015-2017 Net Appropriation	Expended Through 12/31/16	2015-2017 Remaining Appropriation	Expected Expenditures through 6/30/17	2015-2017 Estimated Turnback	
Salaries and Wages	\$ 1,503,722.00	(74,309.38)	1,429,412.62	(991,564.17)	437,848.45	(337,301.94)	100,546.51	1
Operating Expenses	\$ 237,014.00	(36,400.00)	200,614.00	(141,386.57)	59,227.43	(54,077.52)	5,149.91	2
Coal Severance Shortfall	\$ 245,000.00	(16,047.50)	228,952.50	(124,604.36)	104,348.14	(104,348.14)	-	3
One-Time Funding:								
IT Development Costs	\$ 73,699.00	(8,000.00)	65,699.00	(39,177.31)	26,521.69	(16,254.00)	10,267.69	4
IT Project C/O	\$ 15,000.00	-	15,000.00	(3,709.40)	11,290.60	-	11,290.60	5
Township Road Distributions	\$ 8,000,000.00	(324,000.00)	7,676,000.00	(7,675,988.83)	11.17	-	11.17	6
Property Tax Relief Credit	\$ 250,000,000.00	(16,575,000.00)	233,425,000.00	(116,608,551.49)	116,816,448.51	(116,816,448.51)	-	7
Total For Department	\$ 260,074,435.00	(17,033,756.88)	243,040,678.12	(125,584,982.13)	117,455,695.99	(117,328,430.11)	127,265.88	

1. Salaries and wages turnback will have originated from the reallocation of duties within the office which eliminated the deputy treasurer position and converted a temporary position to that FTE resulting in ongoing General Fund savings. These savings were combined with savings realized from temporary vacancies to make up the total estimated turnback amount.
2. Miscellaneous operating expenses.
3. The General Fund appropriation for Coal Severance Shortfall (NDCC 57-62-02(5)) was allotted by the required 6.55%. The remaining appropriation was insufficient to make the full second year distribution as spelled out in statute. We distributed up to our legislative appropriation leaving zero appropriation left.
4. We are currently wrapping up a couple of one-time IT projects and when finished will leave a small amount of estimated turnback.
5. We requested carryover authority from our 2013-2015 biennium budget to complete a website redesign project. This redesign was completed leaving this estimated turnback amount.
6. Township distribution spelled out in HB 1012 Section 8 called for \$5,000 per non-oil township. Distribution was completed after first 4.05% allotment which only reduced the per township amount from \$5,000 to \$4,990.89. This left \$11.17 in remaining appropriation available for turnback.
7. General Fund appropriation for the 12% State-paid Property Tax Credit. Will potentially need a deficiency appropriation to hold counties harmless.

January 18, 2017

HB1005 & HB1065 attachment B

Office of State Treasurer

Prepared for House Appropriations
(Government Operations Division)

Coal Severance Shortfall Summary

Background:

NDCC 57-62-02(2)(b) stipulates that when the tipple of a currently active coal mining operation in a county is within fifteen miles of a non-coal producing county, the revenue from the first 3.4 million tons of production is split between the coal producing and non-coal producing county and their political subdivisions as spelled out in statute.

NDCC 57-62-02(5) requires the State Treasurer distribute coal severance shortfall payments to coal producing counties (and its political subdivisions) that shared a portion of their coal severance tax revenue with a non-coal producing county in the prior year. Within the Office of State Treasurer's biennial budget, the estimated amount needed to make these shortfall distributions are included as a general fund appropriation. The original appropriation amount for this section of law for the 2015-2017 biennium was set at \$245,000. After the combined 6.55% allotment, this amount was reduced to \$228,952. This remaining amount is insufficient to pay the entire shortfall payment as spelled out in statute.

As part of the Governor's budget recommendation for the Office of State Treasurer (HB 1065), there was included language to repeal NDCC 57-62-02(5) which would eliminate the coal severance shortfall reimbursement payments and remove the related appropriation amount from the OST budget.

Distribution Summary:

Coal Severance Distributed to Non-Coal Counties			
	CY '14	CY '15	CY '16
Morton County	88,996.34	93,706.18	90,306.81
Mandan PSD	133,988.86	135,901.14	117,817.47
Glen Ullin PSD	298.21	-	-
New Salem PSD	20,926.41	19,601.39	18,752.18
Total	244,209.82	249,208.71	226,876.46

Coal Severance Shortfall Distributions					
	Jan '15	Jan '16	Jan '17^	/	Jan '17*
Oliver County	48,841.88	49,841.74	45,375.29	/	41,739.06
City of Center	36,631.41	37,381.31	34,031.47	/	31,304.29
School Districts	36,631.41	37,381.31	34,031.47	/	31,304.29
Total	122,104.70	124,604.36	113,438.23	/	104,347.64

^A This is what the distribution would have been without any allotments.
^{*} Actual distributions made in Jan '17.

Legislative History:

- House Bill 1402 (1979 Legislative Session)
 - Added the "15-mile tipple" language to share money with non-coal counties
- Senate Bill 2505 (1993 Legislative Session)
 - Limited the sharing to the revenues from the first 3.4M tons severed
- House Bill 1015, Section 24 (2009 Legislative Session)
 - Added the coal severance shortfall language to offset revenue shared with non-coal counties

CHAPTER 57-62 IMPACT AID PROGRAM

57-62-01. Definitions.

As used in this chapter, unless the context or subject matter otherwise requires:

1. "Coal development" means the mining of coal and industries directly related to the processing of coal, including the generation of electricity from coal or coal products, coal gasification, coal liquefaction, and the manufacture of fertilizer from coal.
2. "Impacted city" means a city which demonstrates actual or anticipated extraordinary expenditures caused by coal or oil and gas development and the growth incidental thereto.
3. "Impacted county" means a county which demonstrates actual or anticipated extraordinary expenditures caused by coal or oil and gas development and the growth incidental thereto.
4. "Impacted school district" means a public school district which demonstrates actual or anticipated extraordinary expenditures caused by coal or oil and gas development and the growth incidental thereto.
5. "Impacted taxing district" means a taxing district as defined in subsection 7 which demonstrates actual or anticipated extraordinary expenditures caused by coal or oil and gas development and the growth incidental thereto.
6. "Oil and gas development" means the exploration for and production of oil and gas and industries directly relating to the refining or processing of the oil or gas.
7. "Taxing district" means any political subdivision, other than those included in subsections 2 through 4, empowered by law to levy taxes.

57-62-02. Allocation of moneys in coal development fund

Moneys deposited in the coal development fund shall be apportioned monthly by the state treasurer as follows:

1. Thirty percent must be deposited in a permanent trust fund in the state treasury, to be known as the coal development trust fund, pursuant to section 21 of article X of the Constitution of North Dakota. Those funds held in trust and administered by the board of university and school lands on March 5, 1981, pursuant to section 12, chapter 563, 1975 Session Laws; section 12, chapter 560, 1977 Session Laws; or section 13, chapter 626, 1979 Session Laws must also be deposited in the trust fund created pursuant to this subsection. The fund must be held in trust and administered by the board of university and school lands for loans to coal-impacted counties, cities, and school districts as provided in section 57-62-03 and for loans to school districts pursuant to chapter 15.1-36. The board of university and school lands may invest such funds as are not loaned out as provided in this chapter and may consult with the state investment board as provided by law. The income, including interest payments on loans, from the trust must be used first to replace uncollectible loans made from the fund and the balance must be deposited in the school construction assistance loan fund. Loan principal payments must be redeposited in the trust fund. The trust fund must be perpetual and held in trust as a replacement for depleted natural resources subject to the provisions of this chapter and chapter 15.1-36.
2. Seventy percent must be allocated to the coal-producing counties and must be distributed among such counties in such proportion as the number of tons [metric tons] of coal severed at each mining operation bears to the total number of tons [metric tons] of coal severed in the state during such monthly period. Allocations under subdivisions a and b must be apportioned by the state treasurer as follows:
 - a. If the tipple of the currently active coal mining operation in a county is not within fifteen miles [24.14 kilometers] of another county in which no coal is mined, the revenue apportioned according to this subdivision must be allocated as follows:
 - (1) Thirty percent must be paid by the state treasurer to the incorporated cities of the county based upon the population of each incorporated city according to the last official regular or special federal census or the census taken in

accordance with the provisions of chapter 40-02 in case of a city incorporated subsequent to such census.

- (2) Forty percent must be paid to the county treasurer who shall deposit it in the county general fund to be used for general governmental purposes.
 - (3) Thirty percent must be apportioned by the state treasurer to school districts within the county on the average daily membership basis, as certified to the state treasurer by the county superintendent of schools.
- b. If the tipple of a currently active coal mining operation in a county is within fifteen miles [24.14 kilometers] of another county in which no coal is mined, the revenue from the production not exceeding the production limitation in a calendar year which is apportioned from that coal mining operation according to this subsection must be allocated, subject to the definitions of terms and the requirements in paragraph 4, as provided in this subdivision. For purposes of this subdivision, the production limitation is three million eight hundred thousand tons [3447302.02 metric tons] through calendar year 1995, three million six hundred thousand tons [3265865.07 metric tons] in calendar years 1996 and 1997, and three million four hundred thousand tons [3084428.12 metric tons] in calendar years after 1997. Revenue from production exceeding the production limitation in a calendar year from that coal mining operation must be allocated only within the coal-producing county under subdivision a. Allocations under this subdivision must be made as follows:
- (1) Thirty percent must be paid by the state treasurer to the incorporated cities of the coal-producing county and to any city of a non-coal-producing county when any portion of the city lies within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation in the coal-producing county, based upon the population of each incorporated city according to the last official regular or special federal census or the census taken in accordance with the provisions of chapter 40-02 in case of a city incorporated subsequent to such census.
 - (2) Forty percent must be divided by the state treasurer between the general fund of the coal-producing county and the general fund of any non-coal-producing county when any portion of the latter county lies within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation in the coal-producing county. The non-coal-producing county portion must be based upon the ratio which the assessed valuation of all quarter sections of land in that county, any portion of which lies within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation, bears to the combined assessed valuations of all land in the coal-producing county and the quarter sections of land in the non-coal-producing county within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation. The county director of tax equalization of the coal-producing county shall certify to the state treasurer the number of quarter sections of land in the non-coal-producing counties which lie at least in part within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation and their assessed valuations.
 - (3) Thirty percent must be apportioned by the state treasurer to school districts within the coal-producing county and to school districts in adjoining non-coal-producing counties when a portion of those school districts' land includes any of the quarter sections of land certified by the director of tax equalization to the state treasurer to be eligible to share county funds as provided for in paragraph 2. The county superintendent of the non-coal-producing counties shall certify to the state treasurer the number of students actually residing on these quarter sections lying outside the coal-producing county and each school district in non-coal-producing counties shall receive a portion of the money under this paragraph based upon the ratio of the number of children residing on quarter sections of that

school district within the fifteen-mile [24.14-kilometer] radius of the tipple of a currently active coal mining operation to the total number of schoolchildren from the coal-producing county combined with all the schoolchildren certified to be living on quarter sections within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation in the coal-producing county.

- (4) For the purposes of this subdivision:
 - (a) The terms "currently active coal mining operation in a county", "currently active coal mining operation in the coal-producing county", and "currently active coal mining operation" mean a coal mining operation that produced more than one hundred fifty thousand tons [136077.71 metric tons] of coal in a coal-producing county during the prior quarterly period.
 - (b) The term "coal-producing county" means a county in which more than one hundred fifty thousand tons [136077.71 metric tons] of coal were mined in the prior quarterly period.
 - (c) The term "another county in which no coal is mined" means a county in which not more than seventy-five thousand tons [68038.86 metric tons] of coal were mined in the prior quarterly period.
 - (d) The terms "non-coal-producing county" and "non-coal-producing counties" mean any county in which not more than seventy-five thousand tons [68038.86 metric tons] of coal were mined in the prior quarterly period.
 - (e) In computing each amount to be paid as provided in paragraph 1, 2, or 3 for coal severance tax revenue from coal mined during a monthly period, the state treasurer shall deduct from the allocation the amount of coal severance tax revenue, if any, that the governmental body in the non-coal-producing county received from the coal mined in the non-coal-producing county during the same monthly period.
- (5) The state treasurer shall allocate funds provided by legislative appropriation to cities, the county general fund, and school districts within a coal-producing county according to the allocation method provided in subdivision a in an amount to offset fifty percent of the loss of that county's share of coal severance tax revenue allocated to a non-coal-producing county under this subdivision in the previous calendar year. The state treasurer shall make the allocation and distribute the funds, within the limits of legislative appropriations, under this paragraph during the first month of each calendar year. The state treasurer shall include in each biennial budget request the amounts estimated to be necessary for the biennium for purposes of this paragraph, based on the allocations under this subdivision in the most recent calendar years.

57-62-03. Loans - Terms and conditions - Repayment.

The board of university and school lands is authorized to make loans to coal development-impacted counties, cities, and school districts before or after the beginning of actual coal mining from moneys deposited in the coal development trust fund established by subsection 2 of section 57-62-02. Loans made prior to actual mining must be preceded by site permitting and by beginning actual construction of the mine or its mine mouth facility. Loans may be made for any purpose for which a grant may be made pursuant to this chapter, but before making any loan the board of university and school lands shall receive the recommendation of the energy infrastructure and impact office. The board of university and school lands shall prescribe the terms and conditions of such loans within the provisions of this chapter and shall require a warrant executed by the governing body of the county, city, or school district as evidence of such loan. The warrants must bear interest at a rate not to exceed six percent. The warrants shall be payable only from the allocations of moneys from the coal development fund to the borrowing county, city, or school district and shall not constitute a general obligation of the

February 7, 2017

HB1005 / HB1065

Attachment A

17.0490.01001

Title.

Fiscal No. 1

Prepared by the Legislative Council staff for
House Appropriations - Government
Operations Division Committee

February 7, 2017

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1005

Page 1, line 1, after "treasurer" insert "; and to amend and reenact subdivision b of subsection 2 of section 57-62-02 of the North Dakota Century Code, relating to coal severance tax allocations"

Page 1, replace lines 10 through 14 with:

"Salaries and wages	\$1,427,333	(\$109,535)	\$1,317,798
Operating expenses	200,614	50,646	251,260
Coal severance payments	<u>228,952</u>	(<u>48,952</u>)	<u>180,000</u>
Total general fund	\$1,856,899	(\$107,841)	\$1,749,058
Full-time equivalent positions	8.00	(1.00)	7.00

SECTION 2. HEALTH INSURANCE INCREASE. The salaries and wages line item in section 1 of this Act includes the sum of \$22,898 from the general fund for increases in employee health insurance premiums from \$1,130 to \$1,249 per month."

Page 1, after line 21, insert:

"SECTION 4. AMENDMENT. Subdivision b of subsection 2 of section 57-62-02 of the North Dakota Century Code is amended and reenacted as follows:

- b. If the tipple of a currently active coal mining operation in a county is within fifteen miles [24.14 kilometers] of another county in which no coal is mined, the revenue from the production not exceeding the production limitation in a calendar year which is apportioned from that coal mining operation according to this subsection must be allocated, subject to the definitions of terms and the requirements in paragraph 4, as provided in this subdivision. For purposes of this subdivision, the production limitation is three million eight hundred thousand tons [3447302.02 metric tons] through calendar year 1995, three million six hundred thousand tons [3265865.07 metric tons] in calendar years 1996 and 1997, and three million four hundred thousand tons [3084428.12 metric tons] in calendar years after 1997 three million four hundred thousand tons [3084428.12 metric tons] through calendar year 2017 and three million tons [2721554.22 metric tons] after calendar year 2017. Revenue from production exceeding the production limitation in a calendar year from that coal mining operation must be allocated only within the coal-producing county under subdivision a. Allocations under this subdivision must be made as follows:
 - (1) Thirty percent must be paid by the state treasurer to the incorporated cities of the coal-producing county and to any city of a non-coal-producing county when any portion of the city lies within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation in the coal-producing county, based upon the population of each incorporated city according to the last official regular or special federal census or

the census taken in accordance with the provisions of chapter 40-02 in case of a city incorporated subsequent to such census.

- (2) Forty percent must be divided by the state treasurer between the general fund of the coal-producing county and the general fund of any non-coal-producing county when any portion of the latter county lies within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation in the coal-producing county. The non-coal-producing county portion must be based upon the ratio which the assessed valuation of all quarter sections of land in that county, any portion of which lies within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation, bears to the combined assessed valuations of all land in the coal-producing county and the quarter sections of land in the non-coal-producing county within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation. The county director of tax equalization of the coal-producing county shall certify to the state treasurer the number of quarter sections of land in the non-coal-producing counties which lie at least in part within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation and their assessed valuations.
- (3) Thirty percent must be apportioned by the state treasurer to school districts within the coal-producing county and to school districts in adjoining non-coal-producing counties when a portion of those school districts' land includes any of the quarter sections of land certified by the director of tax equalization to the state treasurer to be eligible to share county funds as provided for in paragraph 2. The county superintendent of the non-coal-producing counties shall certify to the state treasurer the number of students actually residing on these quarter sections lying outside the coal-producing county and each school district in non-coal-producing counties shall receive a portion of the money under this paragraph based upon the ratio of the number of children residing on quarter sections of that school district within the fifteen-mile [24.14-kilometer] radius of the tipple of a currently active coal mining operation to the total number of schoolchildren from the coal-producing county combined with all the schoolchildren certified to be living on quarter sections within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation in the coal-producing county.
- (4) For the purposes of this subdivision:
 - (a) The terms "currently active coal mining operation in a county", "currently active coal mining operation in the coal-producing county", and "currently active coal mining operation" mean a coal mining operation that produced more than one hundred fifty thousand tons [136077.71 metric tons] of coal in a coal-producing county during the prior quarterly period.

- (b) The term "coal-producing county" means a county in which more than one hundred fifty thousand tons [136077.71 metric tons] of coal were mined in the prior quarterly period.
 - (c) The term "another county in which no coal is mined" means a county in which not more than seventy-five thousand tons [68038.86 metric tons] of coal were mined in the prior quarterly period.
 - (d) The terms "non-coal-producing county" and "non-coal-producing counties" mean any county in which not more than seventy-five thousand tons [68038.86 metric tons] of coal were mined in the prior quarterly period.
 - (e) In computing each amount to be paid as provided in paragraph 1, 2, or 3 for coal severance tax revenue from coal mined during a monthly period, the state treasurer shall deduct from the allocation the amount of coal severance tax revenue, if any, that the governmental body in the non-coal-producing county received from the coal mined in the non-coal-producing county during the same monthly period.
- (5) The state treasurer shall allocate funds provided by legislative appropriation to cities, the county general fund, and school districts within a coal-producing county according to the allocation method provided in subdivision a in an amount to offset fifty percent of the loss of that county's share of coal severance tax revenue allocated to a non-coal-producing county under this subdivision in the previous calendar year for the payments through calendar year 2018 and to offset thirty percent of the loss of that county's share of coal severance tax revenue allocated to a non-coal-producing county under this subdivision in the previous calendar year for payments after calendar year 2018. The state treasurer shall make the allocation and distribute the funds, within the limits of legislative appropriations, under this paragraph during the first month of each calendar year. The state treasurer shall include in each biennial budget request the amounts estimated to be necessary for the biennium for purposes of this paragraph, based on the allocations under this subdivision in the most recent calendar years."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1005 - State Treasurer - House Action

	Base Budget	House Changes	House Version
Salaries and wages	\$1,427,333	(\$109,535)	\$1,317,798
Operating expenses	200,614	50,646	251,260
Coal severance payments	<u>228,952</u>	(48,952)	<u>180,000</u>
Total all funds	\$1,856,899	(\$107,841)	\$1,749,058

Less estimated income	0	0	0
General fund	\$1,856,899	(\$107,841)	\$1,749,058
FTE	8.00	(1.00)	7.00

Department No. 120 - State Treasurer - Detail of House Changes

	Adds Funding for Base Payroll Changes ¹	Adds Funding for Health Insurance Increase ²	Removes 1 FTE Position ³	Reduces Funding for Temporary Staff and an FTE Position ⁴	Adds Funding for Information Technology Costs ⁵	Reduces Funding for Coal Severance Shortfall Payments ⁶
Salaries and wages	\$263	\$22,898				
Operating expenses			(\$88,000)			
Coal severance payments				(\$44,696)		
Total all funds	\$263	\$22,898	(\$88,000)	(\$44,696)	\$50,646	(\$48,952)
Less estimated income	0	0	0	0	0	0
General fund	\$263	\$22,898	(\$88,000)	(\$44,696)	\$50,646	(\$48,952)
FTE	0.00	0.00	(1.00)	0.00	0.00	0.00
Salaries and wages	Total House Changes (\$109,535)					
Operating expenses	50,646					
Coal severance payments	(48,952)					
Total all funds						
Less estimated income						
General fund						
FTE						

¹ Funding is added for cost-to-continue 2015-17 biennium salaries and benefit increases and for other base payroll changes.

² Funding is added for increases in health insurance premiums from \$1,130 to \$1,249 per month.

³ One FTE position is removed, including \$88,000 from the general fund.

⁴ Funding is reduced for temporary staff and for an FTE position that had duties reassigned.

⁵ Funding is added for operating expenses, primarily related to information technology rate increases.

⁶ Funding is reduced for coal severance tax shortfall payments related to changes in the coal severance tax revenue allocation formula.

This amendment also provides the following:

- Adds a new section to identify the funding increase for health insurance premium increases.
- Adds a new section to change the allocation of coal severance tax revenue by reducing the coal production limitation, from 3.4 million tons to 3 million tons, and by reducing the reimbursement percentage for the coal severance shortfall payments, from 50 percent to 30 percent.

February 7, 2017

HB1005/HB1065

Attachment B

State Treasurer - Budget No. 120

House Bill No. 1005

Base Level Funding Changes

	Burgum Executive Budget Recommendation (Changes to Dalrymple Budget in Bold)				House Version				House Changes to Revised Executive Budget				
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total	Increase (Decrease) - Executive Budget				
									FTE Positions	General Fund	Other Funds	Total	
2017-19 Biennium Base Level	8.00	\$1,856,899	\$0	\$1,856,899	8.00	\$1,856,899	\$0	\$1,856,899	0.00	\$0	\$0	\$0	
2017-19 Ongoing Funding Changes													
Base payroll changes		\$263		\$263		\$263		\$263				\$0	
State Treasurer salary equity increase		14,123		14,123				0		(14,123)		(14,123)	
Salary increase - Performance				0				0				0	
Health insurance increase		22,898		22,898		22,898		22,898				0	
Employee portion of health insurance		(10,496)		(10,496)				0		10,496		10,496	
Removes FTE position	(1.00)	(88,000)		(88,000)	(1.00)	(88,000)		(88,000)				0	
Reduces funding for temporary staff		(89,391)		(89,391)		(44,696)		(44,696)		44,695		44,695	
Adds funding for information technology costs		50,646		50,646		50,646		50,646				0	
Adjusts coal severance payments		(228,952)		(228,952)		(48,952)		(48,952)		180,000		180,000	
Total ongoing funding changes	(1.00)	(\$328,909)	\$0	(\$328,909)	(1.00)	(\$107,841)	\$0	(\$107,841)	0.00	\$221,068	\$0	\$221,068	
One-time funding items												\$0	
No one-time funding items				\$0				\$0				\$0	
Total one-time funding changes		0.00	\$0	\$0		0.00	\$0	\$0		0.00	\$0	\$0	
Total Changes to Base Level Funding		(1.00)	(\$328,909)	(\$328,909)		(1.00)	(\$107,841)	(\$107,841)		0.00	\$221,068	\$0	\$221,068
2017-19 Total Funding		7.00	\$1,527,990	\$0		7.00	\$1,749,058	\$0		0.00	\$221,068	\$0	\$221,068
										14.5%	N/A	14.5%	

Other Sections in State Treasurer - Budget No. 120

	Burgum Executive Budget Recommendation (Changes to Dalrymple Budget in Bold)	House Version
Health insurance increase		Section 2 identifies the funding increase for health insurance premium increases included in the agency's appropriation.
Salary of state treasurer	Section 3 provides the statutory changes to increase the State Treasurer's annual salary by \$5,889 in the first year of the 2017-19 biennium related to Section 6 of 2013 House Bill No. 1005 and by 1 percent in the second year. (The Burgum budget recommendation removes the 1 percent salary increase.)	
Coal severance shortfall payments	Section 4 amends Section 57-62-02 to remove the provision for the State Treasurer to reimburse coal-producing counties for coal severance tax revenue paid to non-coal-producing counties.	Section 3 amends Section 57-62-02 to change the distribution of coal severance tax to counties and to reduce the reimbursement to coal-producing counties related to coal severance tax revenue paid to non-coal-producing counties.

17.0490.01001

Title.

Fiscal No. 1

Prepared by the Legislative Council staff for
House Appropriations - Government
Operations Division Committee

February 7, 2017

2-14-17

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1005

Page 1, line 1, after "treasurer" insert "; and to amend and reenact subdivision b of subsection 2 of section 57-62-02 of the North Dakota Century Code, relating to coal severance tax allocations"

Page 1, replace lines 10 through 14 with:

"Salaries and wages	\$1,427,333	(\$109,535)	\$1,317,798
Operating expenses	200,614	50,646	251,260
Coal severance payments	<u>228,952</u>	(<u>48,952</u>)	<u>180,000</u>
Total general fund	\$1,856,899	(\$107,841)	\$1,749,058
Full-time equivalent positions	8.00	(1.00)	7.00

SECTION 2. HEALTH INSURANCE INCREASE. The salaries and wages line item in section 1 of this Act includes the sum of \$22,898 from the general fund for increases in employee health insurance premiums from \$1,130 to \$1,249 per month."

Page 1, after line 21, insert:

"SECTION 4. AMENDMENT. Subdivision b of subsection 2 of section 57-62-02 of the North Dakota Century Code is amended and reenacted as follows:

- b. If the tipple of a currently active coal mining operation in a county is within fifteen miles [24.14 kilometers] of another county in which no coal is mined, the revenue from the production not exceeding the production limitation in a calendar year which is apportioned from that coal mining operation according to this subsection must be allocated, subject to the definitions of terms and the requirements in paragraph 4, as provided in this subdivision. For purposes of this subdivision, the production limitation is three million eight hundred thousand tons [3447302.02 metric tons] through calendar year 1995, three million six hundred thousand tons [3265865.07 metric tons] in calendar years 1996 and 1997, and three million four hundred thousand tons [3084428.12 metric tons] in calendar years after 1997 three million four hundred thousand tons [3084428.12 metric tons] through calendar year 2017 and three million tons [2721554.22 metric tons] after calendar year 2017. Revenue from production exceeding the production limitation in a calendar year from that coal mining operation must be allocated only within the coal-producing county under subdivision a. Allocations under this subdivision must be made as follows:
 - (1) Thirty percent must be paid by the state treasurer to the incorporated cities of the coal-producing county and to any city of a non-coal-producing county when any portion of the city lies within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation in the coal-producing county, based upon the population of each incorporated city according to the last official regular or special federal census or

the census taken in accordance with the provisions of chapter 40-02 in case of a city incorporated subsequent to such census.

- (2) Forty percent must be divided by the state treasurer between the general fund of the coal-producing county and the general fund of any non-coal-producing county when any portion of the latter county lies within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation in the coal-producing county. The non-coal-producing county portion must be based upon the ratio which the assessed valuation of all quarter sections of land in that county, any portion of which lies within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation, bears to the combined assessed valuations of all land in the coal-producing county and the quarter sections of land in the non-coal-producing county within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation. The county director of tax equalization of the coal-producing county shall certify to the state treasurer the number of quarter sections of land in the non-coal-producing counties which lie at least in part within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation and their assessed valuations.
- (3) Thirty percent must be apportioned by the state treasurer to school districts within the coal-producing county and to school districts in adjoining non-coal-producing counties when a portion of those school districts' land includes any of the quarter sections of land certified by the director of tax equalization to the state treasurer to be eligible to share county funds as provided for in paragraph 2. The county superintendent of the non-coal-producing counties shall certify to the state treasurer the number of students actually residing on these quarter sections lying outside the coal-producing county and each school district in non-coal-producing counties shall receive a portion of the money under this paragraph based upon the ratio of the number of children residing on quarter sections of that school district within the fifteen-mile [24.14-kilometer] radius of the tipple of a currently active coal mining operation to the total number of schoolchildren from the coal-producing county combined with all the schoolchildren certified to be living on quarter sections within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation in the coal-producing county.
- (4) For the purposes of this subdivision:
 - (a) The terms "currently active coal mining operation in a county", "currently active coal mining operation in the coal-producing county", and "currently active coal mining operation" mean a coal mining operation that produced more than one hundred fifty thousand tons [136077.71 metric tons] of coal in a coal-producing county during the prior quarterly period.

- (b) The term "coal-producing county" means a county in which more than one hundred fifty thousand tons [136077.71 metric tons] of coal were mined in the prior quarterly period.
 - (c) The term "another county in which no coal is mined" means a county in which not more than seventy-five thousand tons [68038.86 metric tons] of coal were mined in the prior quarterly period.
 - (d) The terms "non-coal-producing county" and "non-coal-producing counties" mean any county in which not more than seventy-five thousand tons [68038.86 metric tons] of coal were mined in the prior quarterly period.
 - (e) In computing each amount to be paid as provided in paragraph 1, 2, or 3 for coal severance tax revenue from coal mined during a monthly period, the state treasurer shall deduct from the allocation the amount of coal severance tax revenue, if any, that the governmental body in the non-coal-producing county received from the coal mined in the non-coal-producing county during the same monthly period.
- (5) The state treasurer shall allocate funds provided by legislative appropriation to cities, the county general fund, and school districts within a coal-producing county according to the allocation method provided in subdivision a in an amount to offset fifty percent of the loss of that county's share of coal severance tax revenue allocated to a non-coal-producing county under this subdivision in the previous calendar year for the payments through calendar year 2018 and to offset thirty percent of the loss of that county's share of coal severance tax revenue allocated to a non-coal-producing county under this subdivision in the previous calendar year for payments after calendar year 2018. The state treasurer shall make the allocation and distribute the funds, within the limits of legislative appropriations, under this paragraph during the first month of each calendar year. The state treasurer shall include in each biennial budget request the amounts estimated to be necessary for the biennium for purposes of this paragraph, based on the allocations under this subdivision in the most recent calendar years."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1005 - State Treasurer - House Action

	Base Budget	House Changes	House Version
Salaries and wages	\$1,427,333	(\$109,535)	\$1,317,798
Operating expenses	200,614	50,646	251,260
Coal severance payments	228,952	(48,952)	180,000
Total all funds	\$1,856,899	(\$107,841)	\$1,749,058

Less estimated income	0	0	0
General fund	\$1,856,899	(\$107,841)	\$1,749,058
FTE	8.00	(1.00)	7.00

Department No. 120 - State Treasurer - Detail of House Changes

	Adds Funding for Base Payroll Changes ¹	Adds Funding for Health Insurance Increase ²	Removes 1 FTE Position ³	Reduces Funding for Temporary Staff and an FTE Position ⁴	Adds Funding for Information Technology Costs ⁵	Reduces Funding for Coal Severance Shortfall Payments ⁶
Salaries and wages	\$263	\$22,898	(\$88,000)	(\$44,696)	50,646	(48,952)
Operating expenses						
Coal severance payments						
Total all funds	\$263	\$22,898	(\$88,000)	(\$44,696)	\$50,646	(\$48,952)
Less estimated income	0	0	0	0	0	0
General fund	\$263	\$22,898	(\$88,000)	(\$44,696)	\$50,646	(\$48,952)
FTE	0.00	0.00	(1.00)	0.00	0.00	0.00
Salaries and wages	Total House Changes (\$109,535)					
Operating expenses	50,646					
Coal severance payments	(48,952)					
Total all funds	(\$107,841)					
Less estimated income	0					
General fund	(\$107,841)					
FTE	(1.00)					

¹ Funding is added for cost-to-continue 2015-17 biennium salaries and benefit increases and for other base payroll changes.

² Funding is added for increases in health insurance premiums from \$1,130 to \$1,249 per month.

³ One FTE position is removed, including \$88,000 from the general fund.

⁴ Funding is reduced for temporary staff and for an FTE position that had duties reassigned.

⁵ Funding is added for operating expenses, primarily related to information technology rate increases.

⁶ Funding is reduced for coal severance tax shortfall payments related to changes in the coal severance tax revenue allocation formula.

This amendment also provides the following:

- Adds a new section to identify the funding increase for health insurance premium increases.
- Adds a new section to change the allocation of coal severance tax revenue by reducing the coal production limitation, from 3.4 million tons to 3 million tons, and by reducing the reimbursement percentage for the coal severance shortfall payments, from 50 percent to 30 percent.

Department 120 - State Treasurer
House Bill No. 1005

Dalrymple Executive Budget Comparison to Prior Biennium Appropriations

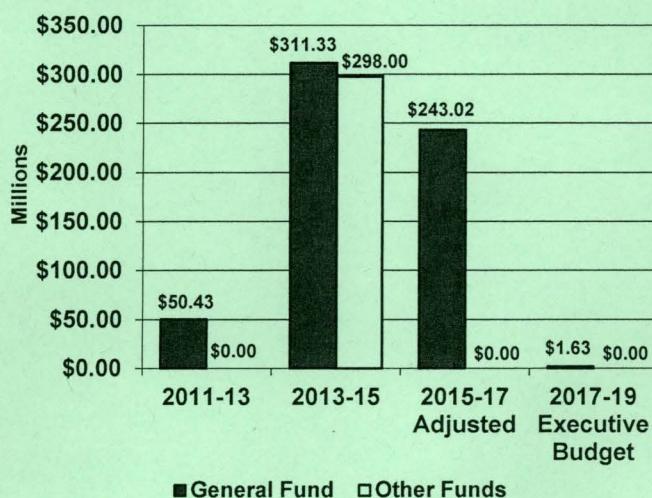
	FTE Positions	General Fund	Other Funds	Total
2017-19 Dalrymple Executive Budget	8.00	\$1,634,231	\$0	\$1,634,231
2015-17 Adjusted Legislative Appropriations ¹	8.00	243,023,598	0	243,023,598
Increase (Decrease)	0.00	(\$241,389,367)	\$0	(\$241,389,367)

¹The 2015-17 biennium agency appropriation amounts reflect general fund budget reductions made in August 2016.

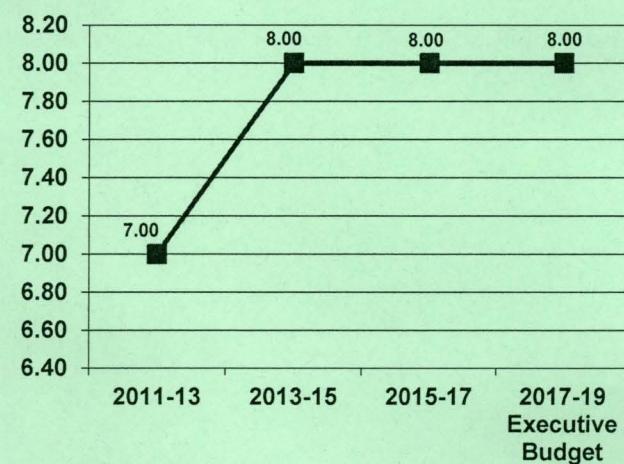
Ongoing and One-Time General Fund Appropriations

	Ongoing General Fund Appropriation	One-Time General Fund Appropriation	Total General Fund Appropriation
2017-19 Dalrymple Executive Budget	\$1,634,231	\$0	\$1,634,231
2015-17 Adjusted Legislative Appropriations	1,856,899	241,166,699	243,023,598
Increase (Decrease)	(\$222,668)	(\$241,166,699)	(\$241,389,367)

Agency Funding



FTE Positions



■ General Fund □ Other Funds

Dalrymple Executive Budget Comparison to Base Level

	General Fund	Other Funds	Total
2017-19 Dalrymple Executive Budget	\$1,634,231	\$0	\$1,634,231
2017-19 Base Level	1,856,899	0	1,856,899
Increase (Decrease)	(\$222,668)	\$0	(\$222,668)

First House Action

Attached is a comparison worksheet detailing first house changes to base level funding and the executive budget.

**Dalrymple and Burgum Executive Budget Highlights
(With First House Changes in Bold)**

- | | General Fund | Other Funds | Total |
|---|--------------|-------------|------------|
| 1. Provides a salary equity increase for the State Treasurer related to Section 6 of 2013 House Bill No. 1005. The House did not add funding for a salary equity increase. | \$14,123 | | \$14,123 |
| 2. Provides funding for state employee salary and benefit increases of which \$7,745 is for salary increases and \$22,898 is for health insurance increases. (The Burgum budget removed funding for salary increases and provided for employees to pay for a portion of health insurance.) The House removed funding for the salary increases. | \$30,643 | | \$30,643 |
| 3. Reduces funding for temporary staff and for an FTE position that had duties reassigned. The House reduced funding for temporary staff by \$44,696. | (\$89,391) | | (\$89,391) |

4. Adds funding for operating expenses primarily related to information technology costs	\$50,646	\$50,646
5. Removes funding for coal severance shortfall payments. The House adjusted the coal severance tax allocations and shortfall payments resulting in a reduction of \$48,952 from the base level.	(\$228,952)	(\$228,952)
6. The Burgum budget removed 1 FTE position	(\$88,000)	(\$88,000)

Other Sections in House Bill No. 1005

Health insurance increase - Section 2 identifies the funding increase for health insurance premium increases included in the agency's appropriation.

Coal severance shortfall payments - Section 4 amends North Dakota Century Code Section 57-62-02 to change the distribution of coal severance tax to counties and to reduce the reimbursement to coal-producing counties related to coal severance tax revenue paid to non-coal-producing counties.

Significant Audit Findings

The operational audit for the State Treasurer's office conducted by the State Auditor's office during the 2015-16 interim identified no significant audit findings.

Major Related Legislation

House Bill No. 1384 - Transfers the unclaimed property administration from the Department of Trust Lands to the State Treasurer's office.

State Treasurer - Budget No. 120

House Bill No. 1005

Base Level Funding Changes

	Burgum Executive Budget Recommendation (Changes to Dalrymple Budget in Bold)				House Version			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2017-19 Biennium Base Level	8.00	\$1,856,899	\$0	\$1,856,899	8.00	\$1,856,899	\$0	\$1,856,899
2017-19 Ongoing Funding Changes								
Base payroll changes		\$263		\$263		\$263		\$263
State Treasurer salary equity increase		14,123		14,123				0
Salary increase - Performance				0				0
Health insurance increase		22,898		22,898		22,898		22,898
Employee portion of health insurance		(10,496)		(10,496)				0
Removes FTE position	(1.00)	(88,000)		(88,000)	(1.00)	(88,000)		(88,000)
Reduces funding for temporary staff		(89,391)		(89,391)		(44,696)		(44,696)
Adds funding for information technology costs		50,646		50,646		50,646		50,646
Adjusts coal severance payments		(228,952)		(228,952)		(48,952)		(48,952)
Total ongoing funding changes	(1.00)	(\$328,909)	\$0	(\$328,909)	(1.00)	(\$107,841)	\$0	(\$107,841)
One-time funding items								
No one-time funding items				\$0				\$0
Total one-time funding changes	0.00	\$0	\$0	\$0	0.00	\$0	\$0	\$0
Total Changes to Base Level Funding	(1.00)	(\$328,909)	\$0	(\$328,909)	(1.00)	(\$107,841)	\$0	(\$107,841)
2017-19 Total Funding	7.00	\$1,527,990	\$0	\$1,527,990	7.00	\$1,749,058	\$0	\$1,749,058

Other Sections in State Treasurer - Budget No. 120

	Burgum Executive Budget Recommendation (Changes to Dalrymple Budget in Bold)	House Version
Health insurance increase		Section 2 identifies the funding increase for health insurance premium increases included in the agency's appropriation.
Salary of State Treasurer	Section 3 provides the statutory changes to increase the State Treasurer's annual salary by \$5,889 in the first year of the 2017-19 biennium related to Section 6 of 2013 House Bill No. 1005 and by 1 percent in the second year. (The Burgum budget recommendation removes the 1 percent salary increase.)	

Other Sections in State Treasurer - Budget No. 120

Coal severance shortfall payments

**Burgum Executive Budget Recommendation
(Changes to Dalrymple Budget in Bold)**

Section 4 amends Section 57-62-02 to remove the provision for the State Treasurer to reimburse coal-producing counties for coal severance tax revenue paid to non-coal-producing counties.

House Version

Section 4 amends Section 57-62-02 to change the distribution of coal severance tax to counties and to reduce the reimbursement to coal-producing counties related to coal severance tax revenue paid to non-coal-producing counties.

Department 120 - State Treasurer

Appropriations Comparisons to the Original and Adjusted Base Budgets

General Fund Appropriations Adjustments
(As a result of the August 2016 General Fund Budget Reductions)

	Ongoing	One-Time	Total
2015-17 original general fund appropriations	\$1,983,656	\$258,073,699	\$260,057,355
General fund reductions	(126,757)	(16,907,000)	(17,033,757)
Adjusted 2015-17 appropriations	\$1,856,899	\$241,166,699	\$243,023,598
Dalrymple Executive Budget changes	(222,668)	(241,166,699)	(241,389,367)
2017-19 Dalrymple Executive Budget	\$1,634,231	\$0	\$1,634,231

Summary of August 2016 General Fund Budget Reductions

	Ongoing	One-Time	Total
Vacant positions and reallocation of duties	(\$74,309)		(\$74,309)
Operating expense reductions related to travel, office equipment, and professional development	(36,400)	(\$8,000)	(44,400)
Coal severance shortfall payments	(16,048)		(16,048)
Property tax relief credit program		(16,575,000)	(16,575,000)
Township road funding distributions		(324,000)	(324,000)
Total reductions	(\$126,757)	(\$16,907,000)	(\$17,033,757)
Percentage reduction to ongoing and one-time general fund appropriations	6.39%	6.55%	6.55%

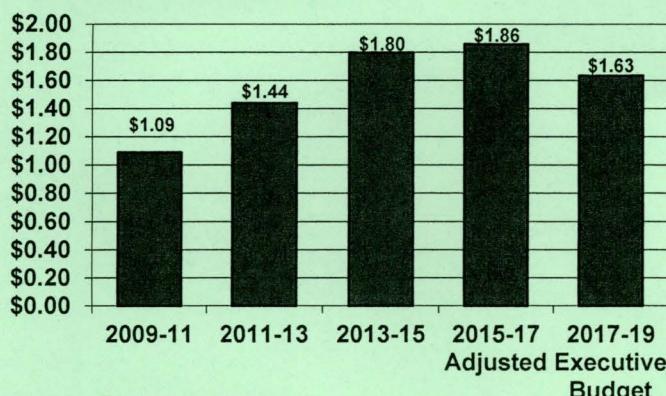
2017-19 Dalrymple Executive Budget Changes to the Original and Adjusted Base Budgets

	Changes to Original Budget	Budget Reduction Adjustments	Changes to Adjusted Budget
Base payroll changes	\$263		\$14,386
Adds funding for State Treasurer salary equity increase	14,123		14,123
Adds funding for state employee salary and benefit increases	30,643		30,643
Adjusts funding for vacant FTE positions and FTE position duty reallocation	(163,700)	\$74,309	(89,391)
Adds funding for operating expenses primarily related to information technology costs	14,246	36,400	50,646
Adjusts funding for coal severance payments	(245,000)	16,048	(228,952)
Total	(\$349,425)	\$126,757	(\$222,668)

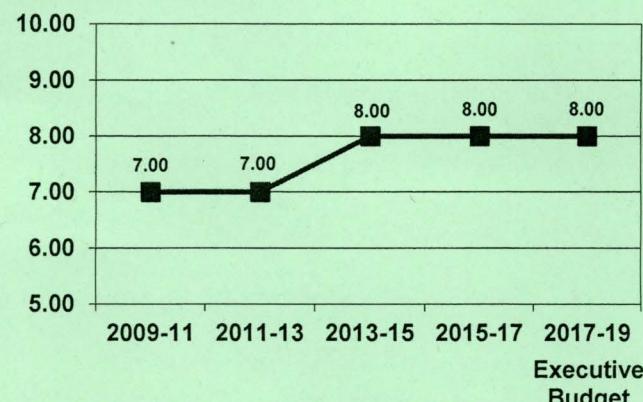
Department 120 - State Treasurer

Historical Appropriations Information**Ongoing General Fund Appropriations Since 2009-11**

Agency Funding (in Millions)



FTE Positions

**Ongoing General Fund Appropriations**

	2009-11	2011-13	2013-15	2015-17 Adjusted	2017-19 Dalrymple Executive Budget
Ongoing general fund appropriations	\$1,087,985 ¹	\$1,438,802	\$1,797,631	\$1,856,899	\$1,634,231
Increase (decrease) from previous biennium	N/A	\$350,817	\$358,829	\$59,268	(\$222,668)
Percentage increase (decrease) from previous biennium	N/A	32.24%	24.94%	3.30%	(11.99%)
Cumulative percentage increase (decrease) from 2009-11 biennium	N/A	32.24%	65.23%	70.67%	50.21%

¹This amount excludes \$1,151,000 for payments to counties in lieu of property taxes on carbon dioxide pipeline property. The 2011 Legislative Assembly removed the payments.

Major Increases (Decreases) in Ongoing General Fund Appropriations**2011-13 Biennium**

1. Added funding to reimburse coal-producing counties for coal severance tax revenue paid to non-coal-producing counties pursuant to Section 57-62-02 \$252,800
2. Added funding for position reclassifications for two accounting positions \$24,000

2013-15 Biennium

1. Added funding for 1 FTE accounting manager position \$195,223
2. Added funding for temporary salaries \$60,000

2015-17 Biennium

1. Added funding for information technology costs, including desktop support services \$101,658
2. Reduced funding for salaries and wages related to the August 2016 budget reductions (\$74,309)

2017-19 Biennium (Dalrymple and Burgum Executive Budget Recommendations)

1. Reduces funding for temporary positions and an FTE position that had duties reassigned. **The House reduced funding for temporary staff by \$44,696.** (\$89,391)
2. Adds funding for operating expenses primarily related to information technology costs \$50,646
3. Removes funding for coal severance shortfall payments. **The House adjusted the coal severance tax allocations and shortfall payments resulting in a reduction of \$48,952 from the base level.** (\$228,952)
4. The Burgum budget removed 1 FTE position (\$88,000)

HB 1005 3-6-19

2017-2019
Office of State Treasurer
Budget Presentation

#1



Kelly Schmidt, State Treasurer

Presented to:
Senate Appropriations
Senator Ray Holmberg, Chairman
March 6, 2017

Chairman Holmberg, and members of the committee, I am Kelly Schmidt, State Treasurer.

Today's presentation will be an overview of the Office of the Treasurer and a detailed budget presentation.

OVERVIEW

The mission of the Office of State Treasurer, "is to fulfill our constitutional and statutory responsibilities, to assure sound financial oversight and transparency to all public funds, and to promote prudent practices in government."

Many of you may think the Office of State Treasurer is a duplication of services or functions you may find inside of other agencies. This is not factual. While we work directly with OMB on numerous issues, there is no duplication of duties. OMB maintains PeopleSoft (the state accounting system). We as an agency use PeopleSoft to process our daily deposits and run reports used in our reconciliation process. OMB assists us when any PeopleSoft issues arise. We are, the checks and balances between OMB and the Bank of North Dakota...the accounting system and the checkbook. While it is the role of the Bank of North Dakota to invest money to profit the Bank, it is the fiduciary responsibility of the Treasurer to manage and grow assets for the general fund.

In our relationship with the Tax Department, they create and maintain a tax processing system certifying collections by local jurisdiction; they determine the administration fee; and provide the NET amount to be distributed. They are the collectors. The Office of State Treasurer creates and maintains a distribution system, for the electronic transfer of funds to the political subdivisions. These complex distribution formulas are based on statute and subject to change.

We are the distributor, communicator and manager of the funds after the Tax Department collects the revenue. This is the checks and balances provided for by our Constitution.

Our agency performs these responsibilities with tremendous pride and accuracy; we have consistently received a “clean” audit since 2009.

One role of our agency is to manage the “checkbook” for the State of North Dakota. The complexity of what we do is often misunderstood. To make it simple, our agency receives daily check/ACH deposits from most state agencies, verifies the amounts, and posts the related journal entry. By 11 am each day, we reconcile these amounts and update the appropriate funds. We are the daily checks and balances between state agencies and the “checkbook”.

When I say we strive for accuracy, we mean it. The volume of checks across all state agencies amounts to often times, thousands of checks each day. We manage over a dozen bank and investment accounts for the State as well as 25 agricultural commodity groups and the Veterans Post War Trust. To date, these accounts total nearly \$2.5 billion and have exceeded \$4 billion. We work diligently, making wise investment decisions ensuring the State is always “making money” and the bills are always paid. This expertise has reached a new level of demand as revenues have fallen.

The Office of State Treasurer is responsible for disbursing over 30 tax distributions to political subdivisions. Our office expends a significant amount of resources to provide analysis, data, and education of various tax distributions and state laws to legislators, employees of other state agencies, officials and employees of local political subdivisions, and the general public.

When I speak of complexity, let me detail the efficiency required by our agency to simply manage the fluctuation of the oil and gas revenue as it relates to distributions to hub cities, political subdivisions, and schools. Also, the analysis and communication to cities as they prepared their FY 2017 budget with a significant reduction in State Aid and the Highway tax.

From 2005 - 2017, more than a dozen new funds have been created by legislative directive that require IT demands and fiscal oversight.

To name a few....

- Centers of Excellence and Research Fund (2005)
- Energy Conservation Fund (2013)
- Legacy Fund (2010)
- Outdoor Heritage Fund
- Research ND Fund (2013)
- Strategic Investment & Improvement Fund (2011)
- Tobacco Prevention and Control Trust Fund (2008)
- Tobacco Settlement Trust Fund
- Workforce Enhancement Fund

There are four key management functions within the Office of the Treasurer:

1. **Cash management** – we collect all the deposits and payables from the agencies. It's our expertise that manages the daily cash flow within the state fund. The forecasting and cash management by our Agency is necessary to ensure the availability of sufficient funds to cover the obligations/payables while ALWAYS optimizing investment opportunities. The millions and billions invested in the immediate short term, is where we work diligently, making wise investment decisions ensuring the State is always "making money." Our agency reconciles accounts daily to three primary areas: The Bank

of North Dakota to the State's software, PeopleSoft, and our state agency deposits and Certificate of Deposit (CD) interest income.

2. **Accounting** — The Office of State Treasurer is responsible for paying all warrants (payables) or checks drawn against the state. Bank balances are reconciled daily to ensure sufficient funds are available to pay all outstanding warrants/payables. We also process void check requests and stop payments as needed. All state funds/deposits received by agencies are deposited through the Office of State Treasurer for investment into the general fund.
3. **Investments** – our agency serves as the custodian for all state funds, and we are responsible for the investment of the state's general and special funds, including the state Ag Commodity groups and the Veterans Postwar Trust.
4. **Tax Collection and Distribution**— the Office of State Treasurer is responsible for the collection of various revenues from political subdivisions. These include all of the miscellaneous court costs collected by the counties. We collect these revenues from each county and ensure they are all deposited into the appropriate state fund as defined in statute. We also are responsible for the administration of over 30 separate revenue distributions to local political subdivisions across the state. The complexity of some of these distribution formulas has amplified over the past 12 years and, specifically, the oil and gas distribution has been changing each biennium. Let me take you back to January of 2015, the first few days of the 64th legislative session and the "Surge Bill" was passed. As with all distributions our process requires bank certification from our political subdivision, we needed to certify the proper bank account to use for

each of the political subdivisions receiving funds. Little did we know, that some of the municipalities receiving funds were so small we could not find a treasurer or auditor to authorize the payment. After checking with the League of Cities and Association of Counties, our staff contacted people who know people through social media, friends, and colleagues and we were able to track down the proper official for each of the locals receiving money. As most of you know, some rural cities are so small the auditor or treasurer may only work one day a week.

In addition to the requirements of my office, I am required by statute or Constitution to serve on the following boards as NOTED: State Investment Board, Teachers Fund for Retirement, Board of University and School Lands, Board of Tax Equalization, State Historical Board, State Canvassing Board.

Agency Accomplishments:

- **Staff** – the Office of State Treasurer has evolved from a staff of bookkeepers to a team of five college educated accountants and our Finance Director, Ryan Skor is a CPA and holds a master's degree. Our staff is cross-trained in every capacity. If one person is out on leave or sick, a team member has the skill set and knowledge to fulfill that role with ease. The volume of work in our agency has grown exponentially, and we have remained consistent in our staff. In 2005, we had a staff of seven which included me. Today we have a staff of 7.5, which includes me. In April of 2016, we defunded the deputy position, and created a permanent part-time administrative position. 1 FTE has been turned back and the .5 FTE will be vacated at the end of the biennium.

- **Operating budget** - has seen a 1% increase in the past 10 years.
- **Financial Literacy** –As stated in statute, we provide a community outreach and education program to our middle schools and high schools. This is funded entirely by partnerships with the business community as we continue to educate North Dakota's youth on the importance of money management.
- **Technology** – The Office of State Treasurer has embraced technology with gusto. We launched our newly designed interactive website three years ago and completed a home page redesign in 2016. Our external stakeholders, city and county auditors/treasurers have access to all forms and pending distributions on-line, allowing them to accurately plan and budget.
- **Monthly Revenue Report** – This is the newest addition to the TDOC (Tax Distribution Outstanding Check) system. It has been successfully launched and is working with ease. Municipal courts throughout the state must now upload all reports and TDOC then creates their appropriate journal entry to record each deposit. Keep in mind there are 53 counties and each court has three entries tied to their deposit. We have spent hundreds of hours on training, which in return has saved us hundreds of hours in journal entries, reconciling and mail costs now and in the future.
- **Website**, external stakeholders – www.nd.gov/treasurer averages nearly 900 active users per month, with nearly 70% of the users being repeat viewers. Our users are the cities and counties and many legislators looking at the Operating Fund Balance, Legacy Fund or other government funds. We continue with our Focus on Transparency – it's the people's money.

Agency Challenges -

IT Costs:

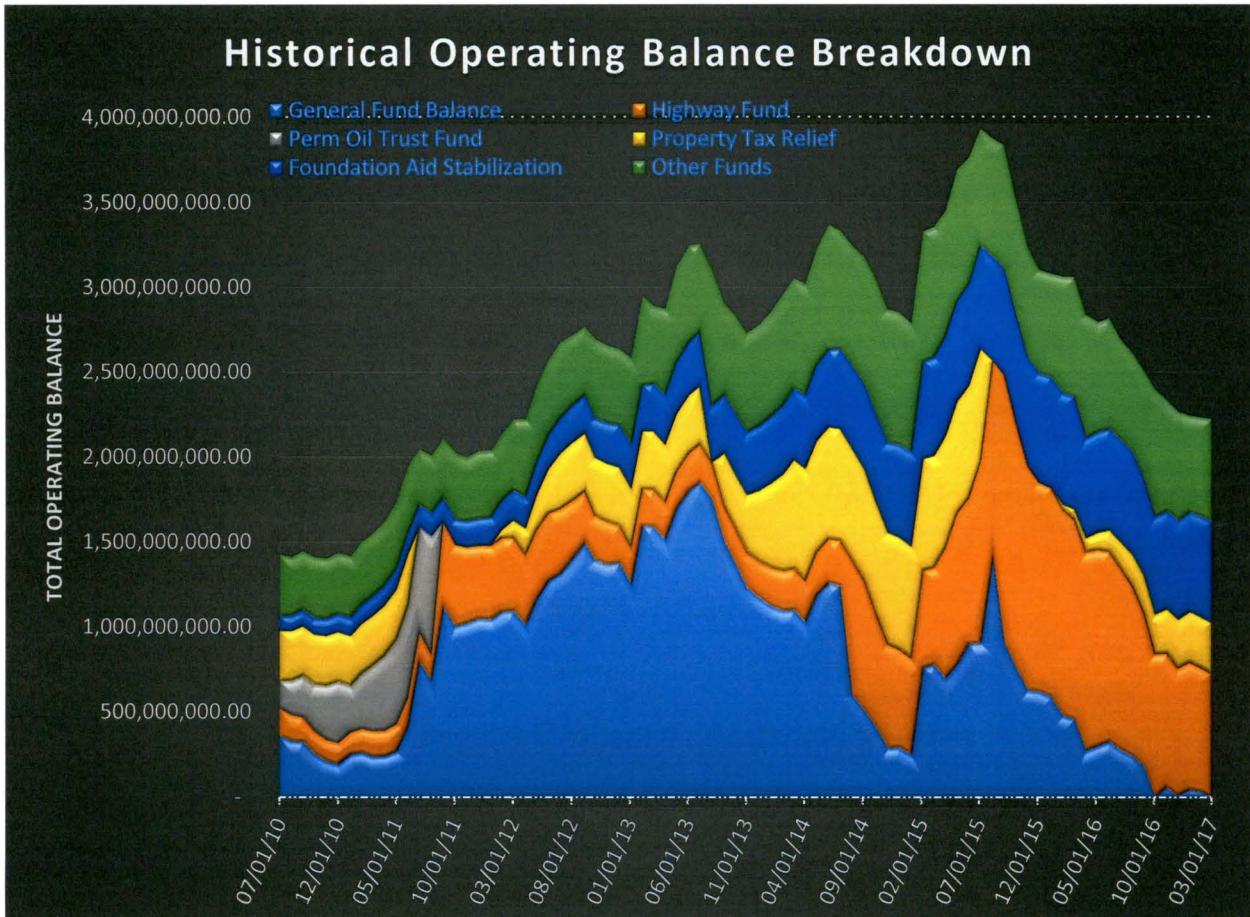
A major concern we face relates to our day-to-day IT costs. Of our \$251,000 of requested on-going operating expenses, almost \$167,000 is directly related to data processing, communications, and desktop support services provided by ITD. We receive excellent service from ITD, we want to make you aware that a reduction is not possible without a reduction in fees from ITD. We have held back on professional development, travel and other operating expenses in anticipation we may need to “pull from Peter to pay Paul”.

- As we are in the midst of the session, we are “birddogging” bills that will affect our agency and analyzing potential IT costs that may be associated with implementing a new formula or distribution. We must keep a watchful eye, so we are not absorbing hard IT costs in our existing budget projections.

Cash Flow:

The second item is not a concern related to our budget, but more so something we want you to be aware of. As mentioned previously, our office is tasked with the cash flow management of the state’s checkbook. With the significant growth in revenues seen over the past decade, cash flow has not been a major issue. Currently, it is not an issue of concern. Moving forward, there are a few things we would like to point out which may cause cash flow to become a concern.

Below is a chart showing the recent historical breakdown of what our operating balance (checkbook) consists of.



As you can see, historically speaking, we're still in a very good position, cash-wise. Our concern lies in whether or not the downward trend continues and what the makeup of the balance looks like through the downturn. In looking at this chart you'll note that, until recently, the general fund balance has been a significant percentage of our operating balance. As we see that balance reduce, we have been relying more and more on other funds as a buffer for cash flow purposes. Currently, the major portion of our operating balance is made up of the highway fund, the foundation aid stabilization fund, and the tax relief fund.

As I mentioned, with the significant balances that are currently in these funds, there are no immediate cash flow issues. However, if the balance of the highway fund continues to decrease and we see a change relating to property tax relief and the excess funds in the foundation aid stabilization fund, we will begin to see some issues.

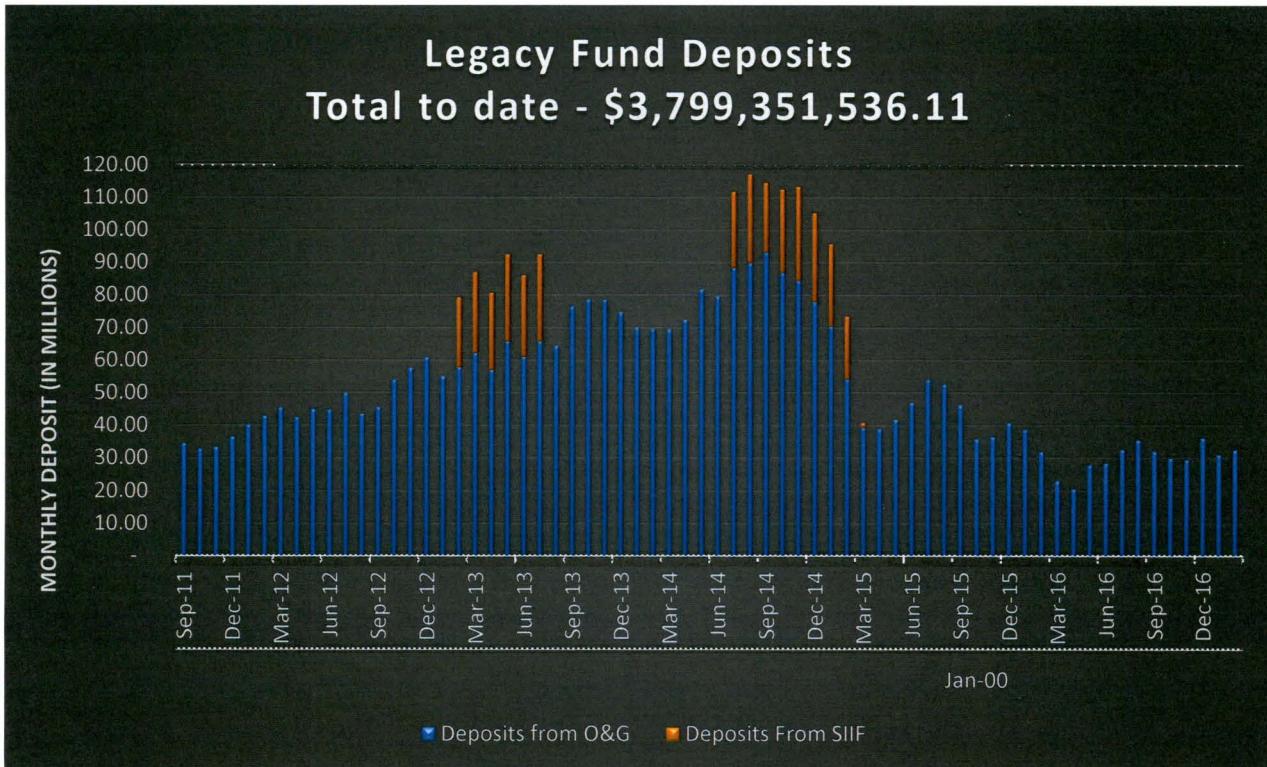
In addition, it is important to note this issue will be compounded by the timing of the earnings transfer from the Legacy Fund. The ND Constitution, requires the earnings for each biennium after June 30, 2017 be transferred to the general fund at the end of the biennium. If these earnings are appropriated for the 2017-19 budget cycle funds would not be available until the end of the biennium, this would create additional cash flow constraints.

Property Tax Relief

We have received preliminary estimates from the Tax Department relating to FY 2017 Property Tax Relief which reflects an increase of 8%. This fund was subject to the allotment, thus we anticipate a budget shortfall of \$10 million for this distribution in the current biennium. Ryan will provide additional detail in his presentation.

Legacy Fund:

A final chart not related to our budget, however, something which we know has generated a lot of attention and questions. This chart shows the complete history of the Legacy Fund deposits that our office has made since inception of the fund. This information is also available on our website.



BUDGET DISCUSSION

Ryan Skor, Director of Finance

As part of the budget discussion for the Office of State Treasurer, I'll work my way through the requested items as outlined in our request from Legislative Council.

2015-2017 BUDGET

Going into the 2015-2017 biennium, our office consisted of eight full time employees, including the Treasurer. Our fiscal staff is made up of two ABS I's, and ABS II, an ASO III, and an Accounting Manager. As mentioned in the Treasurer's remarks, and as a testament to the complexity of the work we perform, all of these fiscal positions require a four-year college degree and varying levels of work experience to be qualified. With the duties required of our office, this level of staffing is vitally important not only to be able to actually perform the required duties, but also to provide the essential checks and balances so that one person isn't handling all stages of a process. This is true not only with daily depositing to and reconciling of the state's checkbook, but also with our revenue distribution processes for all of the funds we send out to the political subdivisions.

In regards to our on-going operating expenses, the vast majority are for data processing services provided by ITD. These are fixed costs that do not render themselves to being reduced by anything other than a reduction in fees charged by ITD. In the current biennium 70% of our on-going operating expenses consist of data processing and desktop support service charges from ITD. Our office has fully embraced technology and has continued to advance the automation of a number of our processes. This embracing of technology has created significant efficiencies within our office. These efficiencies have allowed us to continue performing our

statutory and constitutional duties at a very high level without the need for drastically increased staff, even during this time of unprecedented growth in the volume of activity processed by our office.

EFFECTS OF ALLOTMENTS ON OUR 2015-2017 BUDGET

Line Item Description	2015-2017 Original Appropriation	6.55% Total Allotment		2015-2017 Net Appropriation
Salaries and Wages	\$ 1,501,642.00	(74,309.38)	1	1,427,332.62
Operating Expenses	\$ 237,014.00	(36,400.00)	2	200,614.00
Coal Sev. Shortfall	\$ 245,000.00	(16,047.50)	3	228,952.50
One-Time Funding:				
IT Development Costs	\$ 73,699.00	(8,000.00)	4	65,699.00
Township Road Dist.	\$ 8,000,000.00	(324,000.00)	5	7,676,000.00
Property Tax Relief	\$ 250,000,000.00	(16,575,000.00)	6	233,425,000.00
Total for Department	\$ 260,057,355.00	(17,033,756.88)		243,023,598.12

NOTES:

1. The decision was made to reallocate the duties of the deputy treasurer position to other staff within the office and convert a temporary position into that FTE which resulted in current and on-going General Fund savings. These savings, combined with savings realized from temporary vacancies, make up the total allotment amount shown.
2. Miscellaneous operating expense reductions. Specifically reduced travel, office equipment, and dues & professional development expenditures.
3. The General Fund appropriation for Coal Severance Shortfall (NDCC 57-62-02(5)) was allotted by the required 6.55%. The remaining appropriation was insufficient to make entire second year distribution as spelled out in statute.
4. One-time IT development cost savings recognized through efficiencies in implementing new IT projects.
5. Township distribution spelled out in HB 1012 Section 8 called for \$5,000 per non-oil township. Distribution was completed after first 4.05% allotment which only reduced the per township amount from \$5,000 to \$4,990.89.
6. Allotment of the General Fund appropriation for the 12% State-paid Property Tax Credit. Remaining appropriation will not be sufficient to make the entire second year distributions as spelled out in statute. Current estimates show about a \$10M shortfall.

2015-2017 EXPENDITURES AND ESTIMATED TURNBACK

Line Item Description	2015-2017 Original Appropriation	6.55% Total Allotment		2015-2017 Net Appropriation	Expended Through 1/31/17		2015-2017 Remaining Appropriation	Expected Expenditures through 6/30/17		2015-2017 Estimated Turnback	
Salaries and Wages	\$ 1,501,642.00	(74,309.38)		1,427,332.62	(1,048,376.26)		378,956.36	(284,060.45)		94,895.91	1
Operating Expenses	\$ 237,014.00	(36,400.00)		200,614.00	(146,056.16)		54,557.84	(50,064.60)		4,493.24	2
Coal Sev. Shortfall	\$ 245,000.00	(16,047.50)		228,952.50	(228,952.50)		-	-		-	3
One-Time Funding:											
IT Development Costs	\$ 73,699.00	(8,000.00)		65,699.00	(39,318.81)		26,380.19	(13,545.00)		12,835.19	4
IT Project C/O	\$ 15,000.00	-		15,000.00	(3,709.40)		11,290.60	-		11,290.60	5
Township Road Distributions	\$ 8,000,000.00	(324,000.00)		7,676,000.00	(7,675,988.83)		11.17	-		11.17	6
Property Tax Relief Credit	\$ 250,000,000.00	(16,575,000.00)		233,425,000.00	(116,598,745.37)		116,826,254.63	(116,826,254.63)		-	7
Total For Department	\$ 260,072,355.00	(17,033,756.88)		243,038,598.12	(125,741,147.33)		117,297,450.79	(117,173,924.68)		123,526.11	

1. Salaries and wages turnback will have originated from the reallocation of duties within the office which eliminated the deputy treasurer position resulting in ongoing General Fund savings. These savings were combined with savings realized from temporary vacancies to make up the total estimated turnback amount.
2. Miscellaneous operating expenses.
3. The General Fund appropriation for Coal Severance Shortfall (NDCC 57-62-02(5)) was allotted by the required 6.55%. The remaining appropriation was insufficient to make the full second year distribution as spelled out in statute. We distributed up to our legislative appropriation leaving zero appropriation left.
4. We are currently wrapping up a couple of one-time IT projects and when finished will leave a small amount of estimated turnback.
5. We requested carryover authority from our 2013-2015 biennium budget to complete a website redesign project. This redesign was completed leaving this estimated turnback amount.
6. Township distribution spelled out in HB 1012 Section 8 called for \$5,000 per non-oil township. Distribution was completed after first 4.05% allotment which only reduced the per township amount from \$5,000 to \$4,990.89. This left \$11.17 in remaining appropriation available for turnback.
7. General Fund appropriation for the 12% State-paid Property Tax Credit. Remaining appropriation after allotments will not be sufficient to make the full second year distributions as spelled out in statute.

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2017-2019 BUDGET CHANGES COMPARED TO 2015-2017

Line Item Description	2015-2017 Adjusted Budget	House Changes		Engrossed House Bill 1005
Salaries and Wages	\$1,427,333	(\$109,565)	1	\$1,317,798
Operating Expenses	200,614	50,646	2	251,260
Coal Sev. Shortfall	228,952	(48,952)	3	180,000
Total for Department	\$1,856,899	(\$107,841)		\$1,749,058
One-Time Funding:				
IT Development Costs	\$65,699	-		-
Township Road Dist.	7,676,000	-		-
Property Tax Relief	233,425,000	-		-

NOTES:

1. Reallocation of duties and elimination of one FTE resulting in ongoing General Fund savings. These savings are combined with the cost-to-continue increases resulting in this net decrease in salaries and wages.
2. Increase in ITD costs (both data processing and desktop support). Over the past two biennia, our on-going IT costs have been underestimated and underfunded. These costs have been backfilled with available one-time IT dollars only available due to efficiently completing one-time projects on time and under budget. Therefore, the base level (not including a 10% reduction) of funding for IT costs within the OST budget is insufficient to cover the actual IT costs incurred. As an offset to these needed funding increases, we have included savings in our office equipment/furniture and telephone line items.
3. House adjustments make changes to NDCC 57-62-02 which reduce the coal severance reimbursement percentage from 50% to 30% and also reduce the shared tonnage amounts from 3.4M tons to 3.0M tons. These two changes combine to make up the estimated \$48,952 reduction in required General Fund appropriations.

FEDERAL FUNDING CHANGES

The Office of State Treasurer does not receive any federal funding as part of its operating budget so there would be no anticipated changes.

PROPOSED BUDGET CHANGES TO MEET THE 90% BUDGET GUIDELINE

To achieve the 90% General Fund Budget Request Limit set for the 2017-19 biennium, we looked deep into our processes to find any additional inefficiencies which could be reduced. Over the past number of biennia, the Treasurer has continually sought and found efficiencies to keep our operating budget as lean as possible. The only significant funding additions have come in the form of one-time IT. These funds have been used to update our Tax Distribution Outstanding Check (TDOC) system to create efficiencies or provide for the necessary programing changes needed for our distributions due to legislative changes.

As mentioned previously, the vast majority of our on-going operating expenses are for data processing and desktop support services provided by ITD. These are fixed costs that were not able to be reduced by the requested 10%. In fact, over the past two biennia, these on-going costs have been underestimated and underfunded. The expenses have been backfilled with one-time IT dollars that were only available due to efficiently completing one-time projects on time and under budget. Therefore, the base level (not including a 10% reduction) of funding for IT costs within the OST budget is insufficient to cover the actual IT costs incurred. After reviewing ITD's estimated rates for the 2017-19 biennium, it was determined we will need an additional \$23,000 to cover data processing. This is needed to ensure our everyday, ongoing IT costs are fully funded for the 2017-19 biennium.

In looking closely at our remaining operating expenses we identified small savings in our office equipment/furniture and telephone line items to provide a partial offset to these increases. These savings were included in our base budget request, however, they were not nearly

enough to make up for the increase in ongoing IT costs and the additional 10% reduction requested. Our office then turned to the salaries and benefits line to determine if there were other opportunities which would significantly reduce ongoing salary and benefit costs. After review of our strategic plan, and the statutory and constitutional responsibilities of the agency, we began to look at workflow. We felt we could reduce salary costs and still provide the same high level of service to all state agencies, political subdivisions and the general populace. This reduction 1) removed \$60,000 in temporary salary dollars and eliminated the temporary part-time position within our office. 2) Reduced funding for the Deputy Treasurer position, whose duties were transferred to other staff within the office. 3) Included a legislative intent increase to the salary of the State Treasurer. Section 6 of House Bill 1005 of the 2013 Legislative Session laid out legislative intent that called for an increase in the State Treasurer's salary to match the salary of the next lowest-paid elected official as of July 1, 2017. Combined, these changes reduce the salaries and benefits line by nearly \$166,000.

OPTIONAL ADJUSTMENT REQUEST

In addition to our salaries, benefits, and normal operating expenses, the OST's general fund appropriation includes an amount for the Coal Severance Shortfall distribution, which are payments made to coal producing counties. This is estimated each biennium and included in our agency budget, paid out annually. The 2015-17 amount was set at \$245,000. To meet the 90% general fund budget request and to account for part of our required increase in IT costs, we had to reduce this amount. As we've seen during this biennium, any reduction in this amount will cause the appropriation to be insufficient to make the full payments as spelled out in NDCC 57-62-02(5). A request to restore this funding was included as an optional spending package that was not approved in the Governor's budget. Additionally, the Governor's executive recommendation called for the repeal of NDCC 57-62-02(5) which would remove this Coal Severance Shortfall payment from statute and remove the related appropriation amount from our budget.

Changes made by the House of Representatives restored a portion of this funding at a reduced amount by reducing the reimbursement percentage in NDCC 57-62-02(5) from 50% to 30% and by reducing the shared tonnage amounts from 3.4M tons to 3.0M tons.

We have included a handout giving some history and additional information regarding this coal severance shortfall distribution.

BUDGET CHANGES RECOMMENDED BY THE GOVERNOR AND CHANGES MADE BY THE HOUSE

Line Item Description	2017-2019 Base Budget	Governor Dalrymple Recommended		Governor Burgum Recommended		2017-2019 Final Executive Recommended		House Changes		Engrossed House Bill 1005
Salaries and Wages	\$ 1,427,333	(44,362)	1	(106,241)	4	1,276,730		41,068	5	1,317,798
Operating Expenses	\$ 200,614	50,646	2	-		251,260		-		251,260
Coal Sev. Shortfall	\$ 228,952	(228,952)	3	-		-		180,000	6	180,000
Total For Department	\$ 1,856,899	(222,668)		(106,241)		1,527,990		221,068		1,749,058
FTE	8	-		(1)		7		-		7

NOTES:

1. Eliminate the deputy treasurer position and convert a temporary position to that FTE through a reallocation of duties within the office resulting in ongoing General Fund savings. Also included was a legislative intent increase to the Treasurer's salary as spelled out in 2013 HB 1005. These amounts were combined with the cost to continue increases included to make up the total reduction amount.
2. Increase in ITD costs (both data processing and desktop support). Over the past two biennia, our on-going IT costs have been underestimated and underfunded. These costs have been backfilled with available one-time IT dollars only available due to efficiently completing one-time projects on time and under budget. Therefore, the base level (not including a 10% reduction) of funding for IT costs within the OST budget is insufficient to cover the actual IT costs incurred. This increase is to cover those costs.
3. Governor Dalrymple's recommendation called for a repeal of NDCC 57-62-02(5) which would eliminate the necessity of this line item in our budget.
4. Governor Burgum's recommendation called for the removal of the 1% second year salary increases as well as called for all employees to pay 5% of their health care costs. It also proposed the removal of one FTE and the associated salaries and benefits. These increases and decreases combine to make up the amount shown.
5. The House removed the requirement that employees pay a portion of their health insurance and included funding for the increase in these health insurance costs. They also eliminated the statutory language necessary to comply with the legislative intent in Section 6 of 2013 House Bill No. 1005 which would increase the State Treasurer's salary to the same level as the next lowest paid elected official.
6. Rather than repealing NDCC 57-62-02(5), the House changes make adjustments to NDCC 57-62-02 which reduce the coal severance reimbursement percentage from 50% to 30% and also reduce the shared tonnage amounts from 3.4M tons to 3.0M tons. The estimated net effect of these changes for the 2017-2019 biennium is as shown.

glb

CHANGE REQUESTED

House Bill No. 1065 included the statutory language necessary to comply with the legislative intent spelled out in Section 6 of 2013 House Bill No. 1005. In that bill, language was included which called for the State Treasurer's salary be increased to the salary of the next lowest-paid elected official effective July 1, 2017.

This increase was accounted for in our 90% budget request and was also included in both Governor Dalrymple and Governor Burgum's executive recommendations. Sufficient funding for this increase is currently included in our salaries and benefits line item, however, the statutory language required to facilitate this increase is not included in the current version of the bill.

3-6-17 AB1005

A2
P/A

Coal Severance Shortfall Summary

Background:

NDCC 57-62-02(2)(b) stipulates that when the tipple of a currently active coal mining operation in a county is within fifteen miles of a non-coal producing county, the revenue from the first 3.4 million tons of production is split between the coal producing and non-coal producing county and their political subdivisions as spelled out in statute.

NDCC 57-62-02(5) requires the State Treasurer distribute coal severance shortfall payments to coal producing counties (and its political subdivisions) that shared a portion of their coal severance tax revenue with a non-coal producing county in the prior year. Within the Office of State Treasurer's biennial budget, the estimated amount needed to make these shortfall distributions are included as a general fund appropriation. The original appropriation amount for this section of law for the 2015-2017 biennium was set at \$245,000. After the combined 6.55% allotment, this amount was reduced to \$228,952. This remaining amount is insufficient to pay the entire shortfall payment as spelled out in statute.

As part of the Governor's budget recommendation for the Office of State Treasurer (HB 1065), there was included language to repeal NDCC 57-62-02(5) which would eliminate the coal severance shortfall reimbursement payments and remove the related appropriation amount from the OST budget.

Distribution Summary:

Coal Severance Distributed to Non-Coal Counties			
	CY '14	CY '15	CY '16
Morton County	88,996.34	93,706.18	90,306.81
Mandan PSD	133,988.86	135,901.14	117,817.47
Glen Ullin PSD	298.21	-	-
New Salem PSD	20,926.41	19,601.39	18,752.18
Total	244,209.82	249,208.71	226,876.46

Coal Severance Shortfall Distributions					
	Jan '15	Jan '16	Jan '17^	/	Jan '17*
Oliver County	48,841.88	49,841.74	45,375.29	/	41,739.06
City of Center	36,631.41	37,381.31	34,031.47	/	31,304.29
School Districts	36,631.41	37,381.31	34,031.47	/	31,304.29
Total	122,104.70	124,604.36	113,438.23	/	104,347.64

^A This is what the distribution would have been without any allotments.
^{*} Actual distributions made in Jan '17.

Legislative History:

- House Bill 1402 (1979 Legislative Session)
 - Added the "15-mile tipple" language to share money with non-coal counties
- Senate Bill 2505 (1993 Legislative Session)
 - Limited the sharing to the revenues from the first 3.4M tons severed
- House Bill 1015, Section 24 (2009 Legislative Session)
 - Added the coal severance shortfall language to offset revenue shared with non-coal counties

P/A

CHAPTER 57-62 IMPACT AID PROGRAM

57-62-01. Definitions.

As used in this chapter, unless the context or subject matter otherwise requires:

1. "Coal development" means the mining of coal and industries directly related to the processing of coal, including the generation of electricity from coal or coal products, coal gasification, coal liquefaction, and the manufacture of fertilizer from coal.
2. "Impacted city" means a city which demonstrates actual or anticipated extraordinary expenditures caused by coal or oil and gas development and the growth incidental thereto.
3. "Impacted county" means a county which demonstrates actual or anticipated extraordinary expenditures caused by coal or oil and gas development and the growth incidental thereto.
4. "Impacted school district" means a public school district which demonstrates actual or anticipated extraordinary expenditures caused by coal or oil and gas development and the growth incidental thereto.
5. "Impacted taxing district" means a taxing district as defined in subsection 7 which demonstrates actual or anticipated extraordinary expenditures caused by coal or oil and gas development and the growth incidental thereto.
6. "Oil and gas development" means the exploration for and production of oil and gas and industries directly relating to the refining or processing of the oil or gas.
7. "Taxing district" means any political subdivision, other than those included in subsections 2 through 4, empowered by law to levy taxes.

57-62-02. Allocation of moneys in coal development fund

Moneys deposited in the coal development fund shall be apportioned monthly by the state treasurer as follows:

1. Thirty percent must be deposited in a permanent trust fund in the state treasury, to be known as the coal development trust fund, pursuant to section 21 of article X of the Constitution of North Dakota. Those funds held in trust and administered by the board of university and school lands on March 5, 1981, pursuant to section 12, chapter 563, 1975 Session Laws; section 12, chapter 560, 1977 Session Laws; or section 13, chapter 626, 1979 Session Laws must also be deposited in the trust fund created pursuant to this subsection. The fund must be held in trust and administered by the board of university and school lands for loans to coal-impacted counties, cities, and school districts as provided in section 57-62-03 and for loans to school districts pursuant to chapter 15.1-36. The board of university and school lands may invest such funds as are not loaned out as provided in this chapter and may consult with the state investment board as provided by law. The income, including interest payments on loans, from the trust must be used first to replace uncollectible loans made from the fund and the balance must be deposited in the school construction assistance loan fund. Loan principal payments must be redeposited in the trust fund. The trust fund must be perpetual and held in trust as a replacement for depleted natural resources subject to the provisions of this chapter and chapter 15.1-36.
2. Seventy percent must be allocated to the coal-producing counties and must be distributed among such counties in such proportion as the number of tons [metric tons] of coal severed at each mining operation bears to the total number of tons [metric tons] of coal severed in the state during such monthly period. Allocations under subdivisions a and b must be apportioned by the state treasurer as follows:
 - a. If the tipple of the currently active coal mining operation in a county is not within fifteen miles [24.14 kilometers] of another county in which no coal is mined, the revenue apportioned according to this subdivision must be allocated as follows:
 - (1) Thirty percent must be paid by the state treasurer to the incorporated cities of the county based upon the population of each incorporated city according to the last official regular or special federal census or the census taken in

accordance with the provisions of chapter 40-02 in case of a city incorporated subsequent to such census.

- (2) Forty percent must be paid to the county treasurer who shall deposit it in the county general fund to be used for general governmental purposes.
 - (3) Thirty percent must be apportioned by the state treasurer to school districts within the county on the average daily membership basis, as certified to the state treasurer by the county superintendent of schools.
- b. If the tipple of a currently active coal mining operation in a county is within fifteen miles [24.14 kilometers] of another county in which no coal is mined, the revenue from the production not exceeding the production limitation in a calendar year which is apportioned from that coal mining operation according to this subsection must be allocated, subject to the definitions of terms and the requirements in paragraph 4, as provided in this subdivision. For purposes of this subdivision, the production limitation is three million eight hundred thousand tons [3447302.02 metric tons] through calendar year 1995, three million six hundred thousand tons [3265865.07 metric tons] in calendar years 1996 and 1997, and three million four hundred thousand tons [3084428.12 metric tons] in calendar years after 1997. Revenue from production exceeding the production limitation in a calendar year from that coal mining operation must be allocated only within the coal-producing county under subdivision a. Allocations under this subdivision must be made as follows:
- (1) Thirty percent must be paid by the state treasurer to the incorporated cities of the coal-producing county and to any city of a non-coal-producing county when any portion of the city lies within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation in the coal-producing county, based upon the population of each incorporated city according to the last official regular or special federal census or the census taken in accordance with the provisions of chapter 40-02 in case of a city incorporated subsequent to such census.
 - (2) Forty percent must be divided by the state treasurer between the general fund of the coal-producing county and the general fund of any non-coal-producing county when any portion of the latter county lies within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation in the coal-producing county. The non-coal-producing county portion must be based upon the ratio which the assessed valuation of all quarter sections of land in that county, any portion of which lies within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation, bears to the combined assessed valuations of all land in the coal-producing county and the quarter sections of land in the non-coal-producing county within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation. The county director of tax equalization of the coal-producing county shall certify to the state treasurer the number of quarter sections of land in the non-coal-producing counties which lie at least in part within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation and their assessed valuations.
 - (3) Thirty percent must be apportioned by the state treasurer to school districts within the coal-producing county and to school districts in adjoining non-coal-producing counties when a portion of those school districts' land includes any of the quarter sections of land certified by the director of tax equalization to the state treasurer to be eligible to share county funds as provided for in paragraph 2. The county superintendent of the non-coal-producing counties shall certify to the state treasurer the number of students actually residing on these quarter sections lying outside the coal-producing county and each school district in non-coal-producing counties shall receive a portion of the money under this paragraph based upon the ratio of the number of children residing on quarter sections of that

school district within the fifteen-mile [24.14-kilometer] radius of the tipple of a currently active coal mining operation to the total number of schoolchildren from the coal-producing county combined with all the schoolchildren certified to be living on quarter sections within fifteen miles [24.14 kilometers] of the tipple of the currently active coal mining operation in the coal-producing county.

- (4) For the purposes of this subdivision:
 - (a) The terms "currently active coal mining operation in a county", "currently active coal mining operation in the coal-producing county", and "currently active coal mining operation" mean a coal mining operation that produced more than one hundred fifty thousand tons [136077.71 metric tons] of coal in a coal-producing county during the prior quarterly period.
 - (b) The term "coal-producing county" means a county in which more than one hundred fifty thousand tons [136077.71 metric tons] of coal were mined in the prior quarterly period.
 - (c) The term "another county in which no coal is mined" means a county in which not more than seventy-five thousand tons [68038.86 metric tons] of coal were mined in the prior quarterly period.
 - (d) The terms "non-coal-producing county" and "non-coal-producing counties" mean any county in which not more than seventy-five thousand tons [68038.86 metric tons] of coal were mined in the prior quarterly period.
 - (e) In computing each amount to be paid as provided in paragraph 1, 2, or 3 for coal severance tax revenue from coal mined during a monthly period, the state treasurer shall deduct from the allocation the amount of coal severance tax revenue, if any, that the governmental body in the non-coal-producing county received from the coal mined in the non-coal-producing county during the same monthly period.
- (5) The state treasurer shall allocate funds provided by legislative appropriation to cities, the county general fund, and school districts within a coal-producing county according to the allocation method provided in subdivision a in an amount to offset fifty percent of the loss of that county's share of coal severance tax revenue allocated to a non-coal-producing county under this subdivision in the previous calendar year. The state treasurer shall make the allocation and distribute the funds, within the limits of legislative appropriations, under this paragraph during the first month of each calendar year. The state treasurer shall include in each biennial budget request the amounts estimated to be necessary for the biennium for purposes of this paragraph, based on the allocations under this subdivision in the most recent calendar years.

57-62-03. Loans - Terms and conditions - Repayment.

The board of university and school lands is authorized to make loans to coal development-impacted counties, cities, and school districts before or after the beginning of actual coal mining from moneys deposited in the coal development trust fund established by subsection 2 of section 57-62-02. Loans made prior to actual mining must be preceded by site permitting and by beginning actual construction of the mine or its mine mouth facility. Loans may be made for any purpose for which a grant may be made pursuant to this chapter, but before making any loan the board of university and school lands shall receive the recommendation of the energy infrastructure and impact office. The board of university and school lands shall prescribe the terms and conditions of such loans within the provisions of this chapter and shall require a warrant executed by the governing body of the county, city, or school district as evidence of such loan. The warrants must bear interest at a rate not to exceed six percent. The warrants shall be payable only from the allocations of moneys from the coal development fund to the borrowing county, city, or school district and shall not constitute a general obligation of the

3-6-19 HB 1005

**Sixty-third Legislative Assembly of North Dakota
In Regular Session Commencing Tuesday, January 8, 2013**

#3
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HOUSE BILL NO. 1005
(Appropriations Committee)
(At the request of the Governor)

AN ACT to provide an appropriation for defraying the expenses of the state treasurer; to amend and reenact subsection 18 of section 54-11-01, section 54-11-13, and subsection 5 of section 57-51.2-02 of the North Dakota Century Code, relating to the duties and salary of the state treasurer and a tribal oil and gas agreement; to provide legislative intent; and to declare an emergency.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. APPROPRIATION. The funds provided in this section, or so much of the funds as may be necessary, are appropriated out of any moneys in the general fund in the state treasury not otherwise appropriated, to the state treasurer for the purpose of defraying the expenses of that agency, for the biennium beginning July 1, 2013, and ending June 30, 2015, as follows:

	<u>Base Level</u>	<u>Adjustments or Enhancements</u>	<u>Appropriation</u>
Salaries and wages	\$1,054,524	\$341,913	\$1,396,437
Accrued leave payments	0	13,038	13,038
Operating expenses	163,066	349,881	512,947
Coal severance payments	252,800	0	252,800
Total general fund	\$1,470,390	\$704,832	\$2,175,222
Full-time equivalent positions	7.00	1.00	8.00

SECTION 2. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO SIXTY-FOURTH LEGISLATIVE ASSEMBLY. The following amounts reflect the one-time funding items approved by the sixty-second legislative assembly for the 2011-13 biennium and the 2013-15 one-time funding items included in the appropriation in section 1 of this Act:

<u>One-Time Funding Description</u>	<u>2011-13</u>	<u>2013-15</u>
IT development costs	\$266,588	\$377,591
Transportation funding distributions	25,000,000	0
Transportation funding - special session	23,000,000	0
Total general fund	\$48,266,588	\$377,591

The 2013-15 one-time funding amounts are not a part of the entity's base budget for the 2015-17 biennium. The state treasurer shall report to the appropriations committees of the sixty-fourth legislative assembly on the use of this one-time funding for the biennium beginning July 1, 2013, and ending June 30, 2015.

SECTION 3. AMENDMENT. Subsection 18 of section 54-11-01 of the North Dakota Century Code is amended and reenacted as follows:

18. Shall correct any underpayment, overpayment, or erroneous payment of tax distribution funds, resulting from an error made by the state treasurer in a timely manner. Unless otherwise provided by law, adjustments may be made from the general fund. This authority is limited to one hundred dollars per biennium, unless approved by the emergency commission. An adjustment of an insignificant amount need not be made at the discretion of the state treasurer. The state treasurer shall adopt a written policy identifying what is considered insignificant.

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SECTION 4. AMENDMENT. Section 54-11-13 of the North Dakota Century Code is amended and reenacted as follows:

54-11-13. Salary of state treasurer.

The annual salary of the state treasurer is eighty-fiveninety-one thousand threefour hundred thirtysix dollars through June 30, 20122014, and eighty-sevenninety-four thousand eight hundred ninetynone hundred forty-eight dollars thereafter.

SECTION 5. AMENDMENT. Subsection 5 of section 57-51.2-02 of the North Dakota Century Code is amended and reenacted as follows:

5. The allocation of revenue from oil and gas gross production and oil extraction taxes on the Fort Berthold Reservation must be as follows:
 - a. Production attributable to trust lands. All revenues and exemptions from all oil and gas gross production and oil extraction taxes attributable to production from trust lands on the Fort Berthold Reservation must be evenly divided between the tribe and the state.
 - b. All other production. The tribe must receive twenty percent of the total oil and gas gross production taxes collected from all production attributable to nontrust lands on the Fort Berthold Reservation in lieu of the application of the Three Affiliated Tribes' fees and taxes related to production on such lands. The state must receive the remainder.
 - c. The state's share of the oil and gas gross production tax revenue as divided in subdivisions a and b is subject to distribution among political subdivisions as provided in chapters chapter 57-51 and 57-51.1.

SECTION 6. LEGISLATIVE INTENT - STATE TREASURER'S SALARY. It is the intent of the sixty-third legislative assembly that the salary of the state treasurer be increased to the salary of the next lowest-paid elected official effective July 1, 2017.

SECTION 7. EMERGENCY. The sum of \$195,223 and one full-time equivalent position included in section 1 of this Act are declared to be an emergency measure.